

By: Woolley

H.B. No. 2111

A BILL TO BE ENTITLED

1 AN ACT
2 relating to the operation of video lottery games by licensed horse
3 and greyhound racetrack operators, to a defense for the operation
4 of video lottery by Indian tribes, to the authority of the Texas
5 Lottery Commission and the Texas Racing Commission, and to the
6 conduct of gambling in this state; providing penalties.

7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

8 SECTION 1. The legislature finds and declares the
9 following:

10 (1) The horse industry and agriculture industry have
11 been vital components of this state's economy since the 19th
12 century.

13 (2) The horse industry is an important element of the
14 state's unique fabric, and it is imperative that the legislature
15 take steps to bolster this industry.

16 (3) Live racing greatly benefits the horse industry of
17 this state by providing critical financial and other support to
18 horse shows and events, breeding programs, and employment in
19 tourism and agricultural enterprises in this state.

20 (4) The operation of video lottery games at horse
21 racetracks in the neighboring states of Louisiana, New Mexico, and
22 Oklahoma provides racetracks in those states with an insurmountable
23 economic advantage over racetracks in this state, resulting in much
24 larger purse amounts in those states compared to the purse amounts

1 offered by the racetracks in this state.

2 (5) The consequence of this economic disparity in
3 purse amounts has been the exodus of horses, breeders, and other
4 horse professionals to states with larger purse amounts, placing
5 the horse industry in this state at an overwhelming disadvantage
6 that threatens the very existence of a vital horse industry in this
7 state.

8 (6) Authorizing video lottery games at licensed horse
9 and greyhound racetracks in this state will:

10 (A) remedy this economic disparity by increasing
11 the purse amounts in this state and delivering a huge economic
12 stimulus to this state through increased infrastructure and
13 employment in and around licensed racetracks and throughout this
14 state;

15 (B) boost horse showing and breeding programs;

16 (C) increase employment in tourism;

17 (D) support programs to foster horse and
18 greyhound breeding; and

19 (E) improve the living and working conditions of
20 personnel who work in the horse industry.

21 SECTION 2. Section 466.002, Government Code, is amended to
22 read as follows:

23 Sec. 466.002. DEFINITIONS. In this chapter:

24 (1) "Commission" means the Texas Lottery Commission.

25 (2) "Communication technology" means the methods used
26 and the components employed to facilitate the transmission of
27 information, including transmission and reception systems that

1 transmit information through wire, cable, radio, microwave, light,
2 optics, or computer data networks.

3 (3) "Dedicated account" means a separate fiduciary
4 financial account that is restricted under this chapter according
5 to:

6 (A) the source of the funds that may be deposited
7 into the account; or

8 (B) the enumerated purposes for which money from
9 the account may be spent.

10 (4) "Director" means a [the] director employed by the
11 executive director under Section 467.031 [of the division].

12 (5) "Disable," with respect to video lottery
13 terminals, means the process that causes a video lottery terminal
14 to cease functioning on issuance of a shutdown command from the
15 video lottery central system.

16 (6) "Distribute," with respect to video lottery
17 terminals, means the sale, lease, marketing, offer, or other
18 disposition of a video lottery terminal, an electronic computer
19 component of a video lottery terminal, the cabinet in which a video
20 lottery terminal is housed, video lottery equipment, or video
21 lottery game software intended for use or play in this state.

22 (7) [~~3~~] "Division" means the lottery division
23 established by the commission under Chapter 467.

24 (8) "Electronic storage medium," with respect to video
25 lottery, means the electronic medium on which the operation
26 software for a game playable on a video lottery terminal is stored
27 in the form of erasable programmable read only memory, data storage

1 devices typically considered alterable but through software or
2 hardware means have been rendered unalterable, compact disc-read
3 only memory, flash random access memory, or other technology medium
4 the commission approves for use in or with a video lottery terminal.

5 (9) [~~4~~] "Executive director" means the executive
6 director of the commission.

7 (10) "Horsemen's organization" has the meaning
8 assigned by Section 1.03, Texas Racing Act (Article 179e, Vernon's
9 Texas Civil Statutes).

10 (11) "House-banked game" means a game of chance in
11 which the house:

12 (A) plays as a participant;

13 (B) competes against all players, collects from
14 all losers, and pays all winners; and

15 (C) has an opportunity to win.

16 (12) "Indian lands" means land described by Section
17 47(f), Article III, Texas Constitution.

18 (13) "Institutional investor" means:

19 (A) a state or federal government pension plan;

20 or

21 (B) any of the following that meets the
22 requirements of a "qualified institutional buyer" as defined in
23 Rule 144A, Securities Act of 1933 (15 U.S.C. Sections 77a-77aa),
24 and the rules and regulations adopted under that rule by the United
25 States Securities and Exchange Commission:

26 (i) a bank as defined by Section 3(a)(6),
27 Securities Exchange Act of 1934 (15 U.S.C. Section 78c), and the

1 rules and regulations adopted under that Act by the United States
2 Securities and Exchange Commission;

3 (ii) an insurance company as defined by
4 Section 2(a)(17), Investment Company Act of 1940 (15 U.S.C. Section
5 80a-2);

6 (iii) an investment company registered
7 under Section 8, Investment Company Act of 1940 (15 U.S.C. Section
8 80a-8);

9 (iv) an employee benefit plan or pension
10 fund subject to the Employee Retirement Income Security Act of 1974
11 (29 U.S.C. Section 1001 et seq.), excluding an employee benefit
12 plan or pension fund sponsored by a publicly traded corporation
13 registered with the Securities and Exchange Commission;

14 (v) a group composed entirely of persons
15 specified by this subdivision; or

16 (vi) any other person the commission
17 recognizes as an institutional investor for reasons consistent with
18 the policies expressed in this chapter.

19 (14) [~~5~~] "Lottery" means the state lottery
20 established and operated in accordance with the Texas Constitution
21 under this chapter and includes the operation of a state-controlled
22 video lottery system [~~procedures operated by the state under this~~
23 ~~chapter through which prizes are awarded or distributed by chance~~
24 ~~among persons who have paid, or unconditionally agreed to pay, for a~~
25 ~~chance or other opportunity to receive a prize].~~

26 (15) [~~6~~] "Lottery game" means an activity conducted
27 lawfully and in accordance with the Texas Constitution and this

1 chapter that is controlled by this state as part of the lottery and
2 through which prizes are awarded or distributed by chance to
3 persons who have paid or unconditionally agreed to pay, or who
4 otherwise participate in a game, for a chance or other opportunity
5 to receive a prize [~~includes a lottery activity~~].

6 (16) [~~(7)~~] "Lottery operator" means a person selected
7 under Section 466.014(b) to operate a lottery game.

8 (17) "Manufacture," with respect to video lottery
9 terminals, means to design, assemble, fabricate, produce, program,
10 or make modifications to a video lottery terminal, an electronic
11 computer component of a video lottery terminal, the cabinet in
12 which a video lottery terminal is housed, video lottery equipment,
13 or video lottery game software intended for use or play in this
14 state.

15 (18) "Net terminal income" means the total amount of
16 money paid to play video lottery games less the value of all credits
17 redeemed, including any progressive prizes and bonuses, by the
18 players of the video lottery games at a video lottery terminal
19 establishment. Promotional prizes unrelated to video lottery game
20 wagers that are offered by a video lottery retailer or video lottery
21 manager may not be deducted or otherwise considered credits
22 redeemed for money by players for the purpose of determining net
23 terminal income.

24 (19) "Pari-mutuel license holder" means a person
25 licensed to conduct wagering on a greyhound race or a horse race
26 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
27 Statutes).

1 (20) "Performance horse development fund" means a
2 dedicated account in which a portion of net terminal income is
3 deposited as provided by Subchapter K and that may be spent only for
4 the benefit of certain non-racing horse activities in this state.

5 (21) "Person" means, for purposes of video lottery
6 operations, any natural person, corporation, association, trust,
7 partnership, limited partnership, joint venture, subsidiary, or
8 other entity, regardless of its form, structure, or nature.

9 (22) [~~8~~] "Player" means a person who contributes any
10 part of the consideration for a ticket or to play a video lottery
11 game under this chapter.

12 (23) "Racetrack" has the meaning assigned by Section
13 1.03, Texas Racing Act (Article 179e, Vernon's Texas Civil
14 Statutes).

15 (24) "Racing facilities agreement" means a written
16 agreement that:

17 (A) specifies the amount of money or the
18 percentage of revenue to be transferred by a racetrack and from the
19 applicable Texas canine development fund or Texas equine
20 development fund to the racing facilities capital improvement
21 account; and

22 (B) provides a plan for the use of the money
23 deposited in the racing facilities capital improvement account.

24 (25) [~~9~~] "Sales agent" or "sales agency" means a
25 person licensed under this chapter to sell tickets.

26 (26) "Slot machine" means a mechanical, electrical, or
27 other type of device, contrivance, or machine not connected to the

1 video lottery central system that plays or operates on insertion of
2 a coin, currency, token, or similar object or on payment of any
3 other consideration, and the play or operation of which, through
4 the skill of the operator, by chance, or both, may deliver to the
5 person playing or operating the machine, or entitle the person to
6 receive, cash, premiums, merchandise, tokens, or any other thing of
7 value, whether the payoff is made automatically from the machine or
8 in any other manner. The term does not include any equipment,
9 machine, technological aid, or other device used or authorized in
10 connection with the play of bingo under Chapter 2001, Occupations
11 Code, or authorized under other law.

12 (27) "State horse breed registry" has the meaning
13 assigned by Section 1.03, Texas Racing Act (Article 179e, Vernon's
14 Texas Civil Statutes). The term includes the organizations
15 identified in Section 9.02, Texas Racing Act (Article 179e,
16 Vernon's Texas Civil Statutes).

17 (28) "Substantial interest holder" means any of the
18 following that is not a bona fide lender, bank, or other authorized
19 or licensed lending institution that holds a mortgage or other lien
20 acquired in the ordinary course of business or a vendor of the
21 applicant or license holder that is not otherwise a substantial
22 business holder:

23 (A) a person who directly, indirectly, or
24 beneficially owns any interest in a privately owned corporation,
25 association, trust, partnership, limited partnership, joint
26 venture, subsidiary, or other entity, regardless of its form,
27 structure, or nature;

1 (B) a person who directly, indirectly, or
2 beneficially owns 10 percent or more of any publicly owned
3 corporation, association, trust, partnership, limited partnership,
4 joint venture, subsidiary, or other entity, regardless of its form,
5 structure, or nature;

6 (C) a person associated with an applicant or
7 license holder who the commission determines has the power or
8 authority to:

9 (i) control the activities of the applicant
10 or license holder; or

11 (ii) elect or select the executive
12 director, the managers, the partners, or a majority of the board of
13 directors of the applicant or license holder; and

14 (D) any key personnel of a video lottery retailer
15 or video lottery manager, including an executive director, officer,
16 director, manager, member, partner, limited partner, executive,
17 employee, or agent, who the commission determines has the power to
18 exercise significant influence over decisions concerning any part
19 of the applicant's or license holder's business operation.

20 (29) "Texas canine development fund" means, for a
21 greyhound racetrack that operates a video lottery terminal
22 establishment, the dedicated account in which a portion of the net
23 terminal income is deposited as provided by Subchapter K.

24 (30) "Texas equine development fund" means, for a
25 horse racetrack that operates a video lottery terminal
26 establishment, the dedicated account in which a portion of the net
27 terminal income is deposited as provided by Subchapter K.

1 (31) [~~10~~] "Ticket" means any tangible evidence
2 issued to provide participation in a lottery game authorized by
3 this chapter other than a video lottery game.

4 (32) "Video lottery central system" means the system
5 of procedures and facilities operated and controlled by the
6 commission that is designed to link together all video lottery
7 terminals operated in this state and allows the commission to
8 continuously monitor the activity of each video lottery terminal
9 and to disable any video lottery terminal in this state.

10 (33) "Video lottery central system provider" means a
11 person that, under a contract with the commission, provides the
12 video lottery central system.

13 (34) "Video lottery equipment" means:

14 (A) a video lottery terminal;

15 (B) equipment, a component, or a contrivance used
16 remotely or directly in connection with a video lottery terminal
17 to:

18 (i) affect the reporting of gross revenue
19 and other accounting information, including a device for weighing
20 and counting money;

21 (ii) provide accounting, player tracking,
22 bonuses, and in-house or wide-area prizes;

23 (iii) monitor video lottery terminal
24 operations; and

25 (iv) provide for the connection of video
26 lottery terminals to the video lottery central system; or

27 (C) any other communications technology or

1 equipment necessary for the operation of a video lottery terminal.

2 (35) "Video lottery game" means an
3 electromechanically or electronically simulated game displayed on
4 a video lottery terminal the outcome of which is determined solely
5 by chance based on a computer-generated random selection of winning
6 combinations of symbols or numbers other than typical roulette,
7 dice, or baccarat game themes associated with casino gambling,
8 except that game themes displaying symbols that appear to roll on
9 drums to simulate a classic casino slot machine or themes of other
10 card games and keno may be used. The term includes video lottery
11 games linked together between two or more video lottery terminals
12 in one or more video lottery terminal establishments to provide
13 progressive payments to winners of video lottery games.

14 (36) "Video lottery manager" means a person who is
15 licensed by the commission under this chapter to manage a video
16 lottery terminal establishment.

17 (37) "Video lottery retailer" means a racetrack or the
18 operator of the premises of a pari-mutuel license holder at which a
19 video lottery terminal establishment is located and that holds a
20 video lottery retailer license under Subchapter K.

21 (38) "Video lottery system" has the meaning assigned
22 to that term by Section 47a, Article III, Texas Constitution.

23 (39) "Video lottery terminal" means an interactive
24 electronic device that is capable of displaying video lottery
25 games.

26 (40) "Video lottery terminal establishment" means
27 premises at which the operation of video lottery terminals is

1 authorized by the commission under this chapter in accordance with
2 a license.

3 (41) "Video lottery terminal provider" means a person
4 in the business of manufacturing or distributing video lottery
5 terminals in this state.

6 (42) "Video lottery ticket" means the evidence issued
7 by a video lottery terminal to reflect a credit balance from the
8 play of a video lottery game.

9 SECTION 3. Section 466.003(b), Government Code, is amended
10 to read as follows:

11 (b) Any [A] contract or authorized agreement between the
12 division and a lottery operator, the video lottery central system
13 provider, a video lottery terminal provider, or a manufacturer or
14 distributor of video lottery games under Section 466.014(b) must
15 contain a provision allowing the contract or authorized agreement
16 to be terminated without penalty should the division be abolished
17 unless another state agency is assigned to regulate all video
18 lottery game activity as required by this chapter.

19 SECTION 4. Section 466.004(a), Government Code, is amended
20 to read as follows:

21 (a) A political subdivision of this state may not impose:
22 (1) a tax on the sale of a ticket;
23 (2) a tax on the payment of a prize under this chapter;
24 [~~or~~]
25 (3) an ad valorem tax on tickets;
26 (4) a tax, fee, or other assessment on consideration
27 paid to play a video lottery game; or

1 (5) a tax or fee for attendance or admission to a video
2 lottery establishment or a racetrack at which a video lottery
3 establishment is located unless specifically authorized by
4 statute.

5 SECTION 5. Section 466.014, Government Code, is amended to
6 read as follows:

7 Sec. 466.014. POWERS AND DUTIES OF COMMISSION AND EXECUTIVE
8 DIRECTOR; CONTRACT AUTHORITY. (a) The commission and executive
9 director have broad authority and shall exercise strict control and
10 close supervision over [~~all~~] lottery games [~~conducted in this~~
11 ~~state~~] to promote and ensure integrity, security, honesty, and
12 fairness in the operation and administration of the lottery.

13 (b) The executive director may contract with or employ a
14 person to perform a function, activity, or service in connection
15 with the operation of the lottery as prescribed by the executive
16 director. A contract relating to the operation of video lottery
17 must be consistent with Subchapter K. Except as provided by this
18 subsection, a [A] person with whom the executive director contracts
19 to operate a lottery game must be eligible for a sales agent license
20 under this chapter [Section 466.155]. A person with whom the
21 executive director contracts to provide the video lottery central
22 system must be eligible under the same standards as those
23 applicable to the registration or approval by the commission of a
24 video lottery terminal provider in accordance with Subchapter K.

25 (c) The executive director may award a contract for lottery
26 supplies, equipment, or services, including a contract under
27 Subsection (b), pending the completion of any investigation and

1 licensing, registration, or other affirmative regulatory approval
2 authorized or required by this chapter. A contract awarded under
3 this subsection must include a provision permitting the executive
4 director to terminate the contract without penalty if the
5 investigation reveals that the person to whom the contract is
6 awarded would not be eligible for a sales agent license under
7 Section 466.155 or with regard to video lottery does not satisfy the
8 applicable requirements for licensing, registration, or other
9 affirmative regulatory approval under Subchapter K.

10 SECTION 6. Section 466.015(b), Government Code, is amended
11 to read as follows:

12 (b) The commission shall adopt rules to the extent they are
13 not inconsistent with Chapters 551 and 552 governing the:

14 (1) security for the lottery and the commission,
15 including the development of an internal security plan;

16 (2) apportionment of the total revenues from the sale
17 of tickets and from all other sources in the amounts provided by
18 this chapter;

19 (3) enforcement of prohibitions on the sale of tickets
20 to or by an individual younger than 18 years of age or the sale of a
21 video lottery game to or by an individual younger than 21 years of
22 age; ~~and~~

23 (4) enforcement of prohibitions on a person playing a
24 lottery game by telephone; and

25 (5) enforcement of prohibitions provided by law on the
26 sale of any purchase or play of a video lottery game.

27 SECTION 7. Section 466.017, Government Code, is amended to

1 read as follows:

2 Sec. 466.017. AUDITS. (a) The commission [~~executive~~
3 ~~director~~] shall provide for a certified public accountant to
4 conduct an independent audit of the commission's annual financial
5 statements in accordance with generally accepted auditing
6 standards that requires the accountant to express an opinion on the
7 conformity of the financial statements with generally accepted
8 accounting principles [~~for each fiscal year of all accounts and~~
9 ~~transactions of the lottery~~]. The certified public accountant may
10 not have[, ~~as determined by the executive director,~~] a significant
11 financial interest in a sales agent, lottery vendor, [~~or~~] lottery
12 operator, video lottery manager, video lottery retailer, video
13 lottery terminal provider, or video lottery central system
14 provider. The certified public accountant shall present an audit
15 report to the executive director, the commission, the governor, the
16 comptroller, and the legislature not later than the 30th day after
17 the submission date for the annual financial report required by the
18 General Appropriations Act. [~~The report must contain~~
19 ~~recommendations to enhance the earnings capability of the lottery~~
20 ~~and improve the efficiency of lottery operations.~~] The state
21 auditor may review the results of and working papers related to the
22 audit.

23 (b) The records of a [~~Each~~] lottery operator, sales agent,
24 video lottery manager, video lottery retailer, video lottery
25 terminal provider, or video lottery central system provider
26 [~~operator's and sales agent's records~~] are subject to audit by the
27 commission and the state auditor. For the purpose of carrying out

1 this chapter, the executive director or state auditor may examine
2 all books, records, papers, or other objects that the executive
3 director or state auditor determines are necessary for conducting a
4 complete examination under this chapter and may also examine under
5 oath any officer, director, or employee of a lottery operator, ~~[or]~~
6 sales agent, video lottery manager, video lottery retailer, video
7 lottery terminal provider, or video lottery central system
8 provider. The executive director or state auditor may conduct an
9 examination at the principal office or any other office of the
10 person subject to the audit ~~[lottery operator or sales agent]~~ or may
11 require the person ~~[lottery operator or sales agent]~~ to produce the
12 records at the office of the commission or state auditor. If a
13 sales agent, video lottery manager, video lottery retailer, video
14 lottery terminal provider, or video lottery central system provider
15 refuses to permit an examination or to answer any question
16 authorized by this subsection, the executive director may summarily
17 suspend the license or registration of the sales agent, video
18 lottery manager, video lottery retailer, or video lottery terminal
19 provider under Section 466.160 or Subchapter K until the
20 examination is completed as required. Section 321.013(h) does not
21 apply to an audit of a lottery operator, ~~[or]~~ sales agent, video
22 lottery manager, video lottery retailer, video lottery terminal
23 provider, or video lottery central system provider.

24 (c) To protect the state's financial interest, the
25 commission shall adopt reporting, monitoring, and auditing
26 requirements for revenue generated by video lottery games that is
27 distributed to or used by an organization through an allocation

1 specified under Subchapter K.

2 (d) The commission may adopt the requirements for an
3 organization described by Subsection (c) only after consultation
4 with the organization. In adopting the requirements, the commission
5 shall give consideration to the concerns of the organization.

6 (e) An organization described by Subsection (c) shall
7 annually file with the commission a copy of an audit, conducted by
8 an independent certified public accountant, on the receipt and use
9 by the organization of the revenue generated by video lottery
10 games.

11 (f) The commission may review any records or books of an
12 organization submitting an audit to the commission as required
13 under Subsection (e) as the commission determines necessary to
14 confirm or further investigate the findings of the audit.

15 (g) The commission, after notice and a hearing in accordance
16 with Chapter 2001, may suspend or prohibit the transfer of money to
17 an organization under Subchapter K if:

18 (1) the commission determines the organization has
19 failed to comply with the requirements adopted under Subsection
20 (c); or

21 (2) following the audit required under Subsection (e),
22 the commission determines that material questions have been raised
23 on the use of the money by the organization.

24 SECTION 8. Section 466.018, Government Code, is amended to
25 read as follows:

26 Sec. 466.018. INVESTIGATIONS. The attorney general, the
27 district attorney for Travis County, or the district attorney,

1 criminal district attorney, or county attorney performing the
2 duties of district attorney for the county in which the violation or
3 alleged violation occurred may investigate a violation or alleged
4 violation of this chapter and of the penal laws of this state by the
5 commission or its employees, a sales agent, a lottery vendor, ~~[or]~~ a
6 lottery operator, a video lottery manager, a video lottery
7 retailer, a video lottery terminal provider, or a video lottery
8 central system provider.

9 SECTION 9. Sections 466.020(c), (d), and (e), Government
10 Code, are amended to read as follows:

11 (c) A security officer or investigator employed by the
12 department of security or a peace officer who is working in
13 conjunction with the commission or the Department of Public Safety
14 in the enforcement of this chapter may:

15 (1) ~~[r]~~ without a search warrant, ~~[may]~~ search and
16 seize a lottery vending machine, lottery computer terminal, video
17 lottery terminal, or other lottery or gaming equipment that is
18 located on premises for which a person holds a sales agent, video
19 lottery retailer, or video lottery manager license issued under
20 this chapter; or

21 (2) seize a lottery vending machine, lottery computer
22 terminal, video lottery terminal, or other lottery or gaming
23 equipment that is being used or is in the possession of any person
24 in violation of this chapter.

25 (d) The Department of Public Safety or any other state or
26 local law enforcement agency in this state, at the commission's
27 request and in accordance with an interagency agreement, shall

1 perform a full criminal background investigation of a prospective
2 deputy or investigator of the department of security. The
3 commission shall reimburse the agency [~~Department of Public Safety~~]
4 for the actual costs of an investigation.

5 (e) At least once every two years, the executive director
6 shall employ an independent firm that is experienced in security,
7 including computer security and systems security, to conduct a
8 comprehensive study of all aspects of lottery security, including:

- 9 (1) lottery personnel security;
- 10 (2) sales agent security;
- 11 (3) lottery operator and vendor security;
- 12 (4) security against ticket counterfeiting and
13 alteration and other means of fraudulent winning;
- 14 (5) security of lottery drawings;
- 15 (6) lottery computer, data communications, database,
16 and systems security;
- 17 (7) lottery premises and warehouse security;
- 18 (8) security of distribution of tickets;
- 19 (9) security of validation and payment procedures;
- 20 (10) security involving unclaimed prizes;
- 21 (11) security aspects of each lottery game;
- 22 (12) security against the deliberate placement of
23 winning tickets in lottery games that involve preprinted winning
24 tickets by persons involved in the production, storage,
25 transportation, or distribution of tickets; [~~and~~]
- 26 (13) security of video lottery retailers, video
27 lottery managers, video lottery terminal providers, and video

1 lottery central system providers; and

2 (14) other security aspects of lottery operations,
3 including video lottery game operations.

4 SECTION 10. Section 466.022, Government Code, is amended by
5 amending Subsection (b) and adding Subsections (c), (d), (e), and
6 (f) to read as follows:

7 (b) In addition to commission records excepted from
8 disclosure under Chapter 552, the following information is
9 confidential and is exempt from disclosure:

10 (1) security plans and procedures of the commission
11 designed to ensure the integrity and security of the operation of
12 the lottery;

13 (2) information of a nature that is designed to ensure
14 the integrity and security of the selection of winning tickets or
15 numbers in the lottery, other than information describing the
16 general procedures for selecting winning tickets or numbers; ~~and~~

17 (3) the street address and telephone number of a prize
18 winner, if the prize winner has not consented to the release of the
19 information; and

20 (4) information relating to all system operations of
21 video lottery games, including the operation of the video lottery
22 system, security related to video lottery games, and commission
23 plans and procedures intended to ensure the integrity and security
24 of the operation of video lottery games.

25 (c) Information that is confidential under Subsection
26 (b)(4) includes information and data that:

27 (1) are furnished to the commission under Subchapter K

1 or that may be otherwise obtained by the commission from any source;

2 (2) pertain to an applicant's criminal record,
3 antecedents, and background and are furnished to or obtained by the
4 commission from any source, including information obtained by the
5 commission under Section 411.108(d);

6 (3) are provided to the commission, a commission
7 employee, or an investigator acting on behalf of the commission by a
8 governmental agency or an informer or on the assurance that the
9 information will be held in confidence and treated as confidential;

10 (4) are obtained by the commission from a video
11 lottery manager, video lottery retailer, video lottery terminal
12 provider, or video lottery central system provider; or

13 (5) are prepared or obtained by an agent or employee of
14 the commission relating to a license, certificate of registration,
15 or renewal application, a finding of suitability, or any other
16 affirmative regulatory approval required under Subchapter K.

17 (d) Information that qualifies as confidential under
18 Subsection (b)(4) may be disclosed in whole or in part only as
19 necessary to administer this chapter or under a court order. The
20 commission, subject to appropriate procedures, may disclose the
21 information and data to an authorized agent of a political
22 subdivision of this state, the United States, another state or a
23 political subdivision of another state, a tribal law enforcement
24 agency, or the government of a foreign country.

25 (e) For the annual report required under Section 466.016,
26 the commission may disclose a compilation of statistical
27 information that is otherwise confidential under Subsection (b)(4)

1 if the compilation does not disclose the identity of an applicant,
2 license or registration holder, or video lottery establishment.

3 (f) Notwithstanding any other provision of state law, the
4 information provided under Subsection (d) or (e) may not otherwise
5 be disclosed without specific commission authorization.

6 SECTION 11. Section 466.024, Government Code, is amended to
7 read as follows:

8 Sec. 466.024. PROHIBITED GAMES. (a) The executive
9 director, ~~[or]~~ a lottery operator, a video lottery manager, a video
10 lottery retailer, a video lottery terminal provider, or a video
11 lottery central system provider may not establish or operate a
12 lottery game in which the winner is chosen on the basis of the
13 outcome of a live sports event.

14 (b) The ~~[commission shall adopt rules prohibiting the]~~
15 operation of any game using a video lottery machine or other
16 gambling device that is not connected to the video lottery central
17 system and regulated by this state as required by Section 47a,
18 Article III, Texas Constitution, and this chapter is prohibited
19 ~~[machine].~~

20 (c) In this section, "sports~~[+~~

21 ~~[(1) "Sports]~~ event" means a football, basketball,
22 baseball, or similar game, or a horse or dog race on which
23 pari-mutuel wagering is allowed.

24 ~~[(2) "Video lottery machine" or "machine" means any~~
25 ~~electronic video game machine that, upon insertion of cash, is~~
26 ~~available to play or simulate the play of a video game, including~~
27 ~~video poker, keno, and blackjack, using a video display and~~

1 ~~microprocessors in which the player may receive free games or~~
2 ~~credits that can be redeemed for cash, coins, or tokens, or that~~
3 ~~directly dispenses cash, coins, or tokens.]~~

4 SECTION 12. Section 466.025, Government Code, is amended to
5 read as follows:

6 Sec. 466.025. REPORTS OF TICKETS SOLD, NET TERMINAL INCOME,
7 AND PRIZES AWARDED. For each lottery game, other than a video
8 lottery game, after the last date on which a prize may be claimed
9 under Section 466.408(d), the director shall prepare a report that
10 shows the total number of tickets sold and the number and amounts of
11 prizes awarded in the game. The report must be available for public
12 inspection. For video lottery games, the director shall prepare a
13 weekly report that shows net terminal income for the preceding
14 week.

15 SECTION 13. Section 466.103(a), Government Code, is amended
16 to read as follows:

17 (a) Except as provided by Subsection (b), the executive
18 director may not award a contract for the purchase or lease of
19 facilities, goods, or services related to lottery operations to a
20 person who:

21 (1) would be denied a license as a sales agent under
22 Section 466.155; or

23 (2) with regard to video lottery equipment:

24 (A) is not a registered video lottery terminal
25 provider if registration is required; or

26 (B) would be considered unsuitable to be a video
27 lottery terminal provider under Subchapter K.

1 SECTION 14. Section 466.151(b), Government Code, is amended
2 to read as follows:

3 (b) The executive director may establish a provisional
4 license or other classes of licenses necessary to regulate and
5 administer the quantity and type of lottery games provided at each
6 licensed location of a sales agent.

7 SECTION 15. Subchapter E, Chapter 466, Government Code, is
8 amended by adding Section 466.206 to read as follows:

9 Sec. 466.206. CRIMINAL HISTORY INVESTIGATION FOR VIDEO
10 LOTTERY. Except as otherwise provided by this section, Sections
11 466.020 and 466.201, and Subchapter K, a criminal history
12 investigation of a video lottery retailer, video lottery manager,
13 video lottery terminal provider, or video lottery central system
14 provider is governed by commission rules adopted under Subchapter
15 K. As applicable, the commission shall consider information
16 obtained through a criminal history investigation conducted under
17 the Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes).

18 SECTION 16. Section 466.252, Government Code, is amended to
19 read as follows:

20 Sec. 466.252. PLAYER [~~PURCHASE OF TICKET~~] AGREEMENT TO
21 ABIDE BY RULES AND INSTRUCTIONS. (a) By purchasing a ticket in a
22 particular lottery game or participating as a player in a lottery
23 game, a player agrees to abide by and be bound by the commission's
24 rules and instructions, including the rules or instructions
25 applicable to the particular lottery game involved. The player
26 also acknowledges that the determination of whether the player is a
27 valid winner is subject to:

1 (1) the commission's rules, instructions, and claims
2 procedures, including those developed for the particular lottery
3 game involved; ~~and~~

4 (2) any validation tests established by the commission
5 for the particular lottery game involved; and

6 (3) the limitations and other provisions prescribed by
7 this chapter.

8 (b) If the lottery uses tickets, an abbreviated form of the
9 rules or a reference to the rules may appear on the tickets.

10 SECTION 17. Section 466.3011, Government Code, is amended
11 to read as follows:

12 Sec. 466.3011. VENUE. Venue is proper in Travis County or
13 any county in which venue is proper under Chapter 13, Code of
14 Criminal Procedure, for:

15 (1) an offense under this chapter;

16 (2) an offense under the Penal Code, if the accused:

17 (A) is a lottery operator, lottery vendor, sales
18 agent, video lottery manager, video lottery retailer, video lottery
19 terminal provider, video lottery central system provider, or
20 employee of the division; and

21 (B) is alleged to have committed the offense
22 while engaged in lottery activities, including video lottery
23 activities; or

24 (3) an offense that involves property consisting of or
25 including lottery tickets under Title 7 or 11, Penal Code.

26 SECTION 18. Subchapter G, Chapter 466, Government Code, is
27 amended by adding Section 466.3031 to read as follows:

1 Sec. 466.3031. UNAUTHORIZED OPERATION, USE, OR POSSESSION
2 OF VIDEO LOTTERY TERMINAL. (a) A person may not operate, use, or
3 possess a video lottery terminal unless the operation, use, or
4 possession is expressly authorized by this chapter or other law.

5 (b) Except for transport to or from a video lottery
6 establishment and as provided by this chapter or other law, a person
7 commits an offense if the person operates, uses, or possesses any
8 video lottery terminal that is not at all times connected to the
9 video lottery central system or that does not generate revenue for
10 this state, except funds retained by the commission to pay
11 administrative costs. An offense under this subsection is a felony
12 of the third degree.

13 (c) Notwithstanding Subsection (b), a video lottery
14 retailer, video lottery manager, or registered or approved video
15 lottery terminal provider may store or possess a video lottery
16 terminal as authorized by the commission, and the commission may
17 possess video lottery terminals for study and evaluation.

18 SECTION 19. Section 466.305(a), Government Code, is amended
19 to read as follows:

20 (a) A sales agent, video lottery manager, or video lottery
21 retailer, or an employee of a sales agent, video lottery manager, or
22 video lottery retailer, commits an offense if the person
23 intentionally or knowingly sells a ticket to another person or
24 allows the person to play or conduct a game on a video lottery
25 terminal by extending credit or lending money to the person to
26 enable the person to purchase the ticket or play the game.

27 SECTION 20. The heading to Section 466.3051, Government

1 Code, is amended to read as follows:

2 Sec. 466.3051. SALE [~~OF TICKET~~] TO OR PURCHASE OF LOTTERY
3 TICKET BY PERSON YOUNGER THAN 18; PLAY OF VIDEO LOTTERY GAME BY
4 PERSON YOUNGER THAN 21 [~~YEARS OF AGE~~].

5 SECTION 21. Section 466.3051, Government Code, is amended
6 by adding Subsections (a-1) and (b-1) and amending Subsections (b)
7 through (f) to read as follows:

8 (a-1) A video lottery manager, a video lottery retailer, or
9 an employee of a video lottery manager or video lottery retailer
10 commits an offense if the person intentionally or knowingly allows
11 a person younger than 21 years of age to play a video lottery game.

12 (b) An individual who is younger than 18 years of age
13 commits an offense if the individual:

14 (1) purchases a lottery ticket; or

15 (2) falsely represents the individual to be 18 years
16 of age or older by displaying evidence of age that is false or
17 fraudulent or misrepresents in any way the individual's age in
18 order to purchase a lottery ticket.

19 (b-1) An individual who is younger than 21 years of age
20 commits an offense if the individual:

21 (1) plays a video lottery game; or

22 (2) falsely represents the individual to be 21 years
23 of age or older by displaying evidence of age that is false or
24 fraudulent or misrepresents in any way the individual's age in
25 order to play a video lottery game.

26 (c) A person 18 years of age or older may purchase a lottery
27 ticket to give as a gift to another person, including an individual

1 younger than 18 years of age.

2 (d) It is a defense to the application of Subsection (b)
3 that the individual younger than 18 years of age is participating in
4 an inspection or investigation on behalf of the commission or other
5 appropriate governmental entity regarding compliance with this
6 section. It is a defense to the application of Subsection (b-1) that
7 the individual younger than 21 years of age is participating in an
8 inspection or investigation on behalf of the commission or other
9 appropriate governmental entity regarding compliance with this
10 section.

11 (e) An offense under Subsection (a) or (a-1) is a Class C
12 misdemeanor.

13 (f) An offense under Subsection (b) or (b-1) is punishable
14 by a fine not to exceed \$250.

15 SECTION 22. Section 466.306, Government Code, is amended to
16 read as follows:

17 Sec. 466.306. FORGERY; ALTERATION OF TICKET. (a) A person
18 commits an offense if the person intentionally or knowingly alters
19 or forges a ticket or video lottery ticket.

20 (b) An offense under this section is a felony of the third
21 degree unless it is shown on the trial of the offense that the prize
22 alleged to be authorized by the ticket or video lottery ticket
23 forged or altered is greater than \$10,000, in which event the
24 offense is a felony of the second degree.

25 SECTION 23. Section 466.309(a), Government Code, is amended
26 to read as follows:

27 (a) A person commits an offense if the person intentionally

1 or knowingly tampers with, damages, defaces, or renders inoperable
2 any vending machine, electronic computer terminal, video lottery
3 terminal or other video lottery equipment, or other mechanical
4 device used in a lottery game.

5 SECTION 24. The heading to Section 466.317, Government
6 Code, is amended to read as follows:

7 Sec. 466.317. PROHIBITION AGAINST SALE OF CERTAIN LOTTERY
8 TICKETS OR OPERATION OF CERTAIN VIDEO LOTTERY SYSTEMS.

9 SECTION 25. Section 466.317, Government Code, is amended by
10 adding Subsection (a-1) and amending Subsection (c) to read as
11 follows:

12 (a-1) A person may not control or operate a video lottery
13 system in this state except as provided by this chapter or other
14 law.

15 (c) A person commits an offense if the person violates this
16 section. An offense under this section is a felony of the third
17 degree [~~Class A misdemeanor~~].

18 SECTION 26. Section 466.355(a), Government Code, is amended
19 to read as follows:

20 (a) The state lottery account is a special account in the
21 general revenue fund. The account consists of all revenue received
22 from the sale of tickets, license and application fees under this
23 chapter, other than Subchapter K, and all money credited to the
24 account from any other fund or source under law. Interest earned by
25 the state lottery account shall be deposited in the unobligated
26 portion of the general revenue fund.

27 SECTION 27. Subchapter H, Chapter 466, Government Code, is

1 amended by adding Section 466.360 to read as follows:

2 Sec. 466.360. VIDEO LOTTERY TERMINAL REVENUE. Revenue
3 generated from the operation of video lottery terminals is governed
4 by Subchapter K and commission rules.

5 SECTION 28. Section 466.402, Government Code, is amended by
6 adding Subsection (e) to read as follows:

7 (e) This section does not apply to the payment of prizes for
8 video lottery games governed by Subchapter K.

9 SECTION 29. Chapter 466, Government Code, is amended by
10 adding Subchapter K to read as follows:

11 SUBCHAPTER K. VIDEO LOTTERY

12 Sec. 466.501. LEGISLATIVE FINDINGS AND DECLARATIONS. The
13 legislature finds and declares the following:

14 (1) The purpose and intent of this subchapter is to
15 carry out the intent of the voters as established by the approval of
16 Section 47a, Article III, Texas Constitution, to expand the
17 revenue-generating ability of the state lottery by authorizing this
18 state to operate a video lottery system consistent with public
19 policy strictly limiting the expansion of gambling in this state.

20 (2) Except as expressly authorized under other law,
21 the people of this state intend to allow only state-regulated video
22 lottery games to be conducted in this state and only in locations at
23 which pari-mutuel wagering is conducted at racetracks.

24 (3) The video lottery games operated at racetracks
25 under this subchapter are regulated by this state in a manner that
26 allows this state to continuously monitor all video lottery
27 terminals and to disable any video lottery terminal for the

1 protection of the public and this state.

2 (4) Through the video lottery system this state will
3 monitor the network of video lottery terminals to ensure maximum
4 security unique to state-regulated gambling. Except as may
5 otherwise be provided by state or federal law governing gaming on
6 Indian lands, each operating video lottery terminal in this state
7 will be connected to a video lottery central system.

8 (5) Limited gaming is intended to enhance live horse
9 and greyhound racing, horse shows and events, horse and greyhound
10 breeding programs, entertainment, and employment in tourism and
11 agricultural industries of Texas and to assist this state's horse
12 and greyhound racing industry, support programs intended to foster
13 and promote horse and greyhound breeding, and improve the living
14 and working conditions of personnel who work and reside in and
15 around the stable and backside areas of racetracks.

16 (6) In authorizing only a state-regulated and
17 state-operated video lottery central system and state-regulated
18 video lottery terminals in limited locations and continuing the
19 general prohibition on gambling in this state as a matter of public
20 policy, this state is protecting the state's legitimate interests
21 by restricting such activity. By limiting the operation of video
22 lottery terminals to those connected to the state-regulated video
23 lottery system on certain land with certain types of games, the
24 legislature seeks to foster this state's legitimate sovereign
25 interest in regulating the growth of gambling activities in this
26 state.

27 (7) This subchapter is game-specific and may not be

1 construed to allow the operation of any other form of gambling
2 unless specifically allowed by this subchapter. This subchapter
3 does not allow the operation of dice games, roulette wheels,
4 house-banked games, including house-banked card games, or games in
5 which winners are determined by the outcome of a live sports contest
6 that are expressly prohibited under other state law.

7 Sec. 466.502. CONSTRUCTION; APPLICABILITY OF OTHER LAWS.

8 (a) This subchapter applies uniformly throughout this state and
9 all political subdivisions of this state.

10 (b) To the extent of any inconsistency between this
11 subchapter and the Texas Racing Act (Article 179e, Vernon's Texas
12 Civil Statutes), the Alcoholic Beverage Code, or other law, this
13 subchapter controls.

14 (c) To the extent of any inconsistency between Chapter 2003
15 and this subchapter or a commission rule governing video lottery
16 terminals, this subchapter or the commission rule controls in all
17 matters related to video lottery terminals.

18 (d) Video lottery equipment operated under commission
19 authority and this subchapter is exempt from 15 U.S.C. Section
20 1172.

21 Sec. 466.503. CONDUCT RELATED TO OPERATION OF VIDEO LOTTERY
22 TERMINALS BY INDIAN TRIBES. Notwithstanding any provision of this
23 chapter, conduct authorized in connection with video lottery
24 terminals under this subchapter, including conduct in which a
25 person who holds a license, certificate of registration, finding of
26 suitability, or other affirmative regulatory approval under this
27 subchapter is authorized to engage under the license, certificate

1 of registration, finding of suitability, or other affirmative
2 regulatory approval, is also authorized for the conduct of video
3 lottery terminals by Indian tribes that is allowed under other law.

4 [Section 466.504 reserved for expansion]

5 Sec. 466.505. AUTHORITY TO OPERATE VIDEO LOTTERY SYSTEM.

6 The commission may implement and operate a video lottery system and
7 regulate the operation of video lottery terminals at racetracks in
8 accordance with this subchapter and the Texas Racing Act (Article
9 179e, Vernon's Texas Civil Statutes).

10 Sec. 466.506. VIDEO LOTTERY GAMES; STATE OWNERSHIP AND
11 PROPRIETARY INTEREST. For purposes of this subchapter, this state
12 may acquire a proprietary interest in video lottery game software
13 through:

14 (1) ownership of the software; or

15 (2) an exclusive product license agreement with a
16 provider in which the provider retains copyrighted ownership of the
17 software but the license granted to this state is nontransferable
18 and authorizes this state to operate the software program, solely
19 for the state's own use, on the video lottery central system and
20 video lottery terminals connected to the video lottery central
21 system.

22 Sec. 466.507. STATE CONTROL OF VIDEO LOTTERY SYSTEM. (a)

23 In accordance with Section 47a, Article III, Texas Constitution,
24 the commission shall control and regulate the video lottery system
25 and the video lottery central system through which this state has
26 the exclusive and unilateral ability to monitor activity of video
27 lottery terminals and remotely disable video lottery terminals for

1 the public safety, health, and welfare or the preservation of the
2 integrity of the lottery and to prevent any financial loss to this
3 state.

4 (b) This section does not affect or restrict the ability of
5 a video lottery manager or video lottery retailer to monitor
6 activity of video lottery terminals and to disable video lottery
7 terminals in accordance with commission rules.

8 (c) The commission may disable a video lottery terminal if a
9 video lottery retailer's or video lottery manager's license is
10 revoked, surrendered, or summarily suspended under this subchapter
11 and to prevent any financial loss to this state.

12 [Sections 466.508-466.509 reserved for expansion]

13 Sec. 466.510. VIDEO LOTTERY CENTRAL SYSTEM. (a) The
14 commission shall establish or cause to be established a video
15 lottery central system to link all video lottery terminals in the
16 video lottery system. The video lottery central system must
17 provide the auditing, security, and other information required by
18 the commission.

19 (b) The commission shall provide to a registered or approved
20 video lottery terminal provider or an applicant applying for
21 registration or approval as a video lottery terminal provider the
22 protocol documentation data necessary to enable the provider's or
23 applicant's video lottery terminals to communicate with the
24 commission's video lottery central system for transmission of
25 auditing program information and for activation and disabling of
26 video lottery terminals.

27 (c) The video lottery central system design may not limit or

1 preclude potential providers from providing state-of-the-art,
2 industry-standard video lottery terminals and associated equipment
3 such as player tracking systems, accounting systems, progressive
4 systems, and bonusing systems, except for providers that fail to
5 meet registration or approval specifications established by the
6 commission.

7 (d) The commission may contract with a video lottery central
8 system provider to establish the video lottery central system.

9 Sec. 466.511. VIDEO LOTTERY TERMINAL PROVIDER:
10 REGISTRATION OR APPROVAL REQUIRED. (a) A person may not
11 manufacture or distribute video lottery equipment for use or play
12 in this state unless the person is registered as a video lottery
13 terminal provider or is otherwise approved by the commission to
14 manufacture or distribute video lottery equipment in this state. A
15 video lottery retailer may also hold a license as a video lottery
16 terminal provider under this section.

17 (b) Unless suspended or revoked, the registration or
18 approval expires on the date specified by the commission, which may
19 not be later than the 10th anniversary of the date of the
20 registration or approval. A person may renew an unexpired
21 registration or approval by paying the required renewal fee and
22 complying with the requirements of this subchapter and commission
23 rule.

24 (c) To be eligible for registration or approval as required
25 by this section, an applicant must satisfy all applicable
26 requirements under this subchapter.

27 Sec. 466.512. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION;

1 CHANGE IN INFORMATION. (a) The commission shall adopt rules
2 governing the registration or approval of video lottery terminal
3 providers and the information an applicant must provide to the
4 commission. The rules must require the application and any other
5 form or document submitted to the commission by or on behalf of the
6 applicant to determine the applicant's qualification under this
7 section to be sworn to or affirmed before an officer qualified to
8 administer oaths.

9 (b) The applicant must demonstrate the ability to comply
10 with all manufacturing, quality control, and operational
11 restrictions imposed on authorized video lottery equipment,
12 patented or otherwise restricted video lottery games, or other
13 video lottery equipment that the applicant seeks to manufacture or
14 distribute for use in this state. The registration or approval
15 process must include an on-site review of the applicant's
16 manufacturing equipment and process for each separate type of
17 authorized video lottery equipment to ensure compliance with the
18 requirements of this chapter and commission rules.

19 (c) Not later than the 30th day after the date of any change
20 in the information submitted on or with the application form, the
21 applicant shall notify the commission of the change, including a
22 change that occurs after the registration or other approval has
23 been granted.

24 (d) The applicant shall comply with all federal and state
25 laws, local ordinances, and rules.

26 Sec. 466.513. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION

27 FEE. (a) An applicant seeking registration or approval or renewal

1 of registration or approval as a video lottery terminal provider
2 must pay a nonrefundable application fee in the amount prescribed
3 by commission rule that is sufficient to pay the costs to the
4 commission of administering and approving video lottery terminals.

5 (b) Application fees paid under this section shall be
6 retained by the commission and may be used only to defray costs
7 incurred in the administration and enforcement of this chapter
8 relating to the operation of video lottery terminals.

9 [Sections 466.514-466.519 reserved for expansion]

10 Sec. 466.520. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
11 MANAGER LICENSE REQUIRED. Except as specifically provided by other
12 law, a person may not own or operate a video lottery terminal if the
13 person does not satisfy the requirements of this subchapter and is
14 not licensed by the commission to act as a video lottery retailer or
15 video lottery manager.

16 Sec. 466.521. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
17 MANAGER: APPLICATION AND QUALIFICATION. (a) An applicant for a
18 video lottery retailer or video lottery manager license must:

19 (1) hold a valid racetrack or pari-mutuel license
20 originally granted by the Texas Racing Commission under the Texas
21 Racing Act (Article 179e, Vernon's Texas Civil Statutes) on or
22 before January 1, 2011, and the location for the video lottery
23 terminal establishment must be in the county in which the license
24 holder's racetrack was authorized to operate under that license;

25 (2) have a valid and executed contract with a
26 racetrack or pari-mutuel license holder who satisfies the
27 requirements of Subdivision (1) to act as a video lottery manager

1 for the racetrack subject to licensing under this subchapter; or

2 (3) demonstrate to the commission's satisfaction that
3 the applicant seeks to act as a video lottery manager for a
4 federally recognized Indian tribe.

5 (b) Each officer, partner, director, key employee,
6 substantial interest holder, video lottery game operation
7 employee, and owner of video lottery game operations must be
8 eligible and maintain eligibility in accordance with this
9 subchapter to be involved in video lottery games in this state.

10 (c) The commission shall issue a video lottery retailer or
11 manager license to an applicant who meets the criteria established
12 by the commission rules.

13 (d) The commission shall adopt rules to implement this
14 section.

15 Sec. 466.522. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
16 MANAGER: APPLICATION FEE. (a) An applicant for a video lottery
17 retailer or video lottery manager license shall submit a
18 nonrefundable application processing fee in the amount prescribed
19 by commission rule that is sufficient and reasonable to pay the
20 costs of determining the applicant's eligibility, not to exceed
21 \$5,000.

22 (b) An application may not be processed until the applicant
23 pays the application fee. If the application fee is not received by
24 the 30th day after the date the commission notifies the applicant of
25 the amount of the fee, the application is considered withdrawn and
26 may not be considered by the commission.

27 [Sections 466.523-466.524 reserved for expansion]

1 Sec. 466.525. VIDEO LOTTERY TERMINAL ESTABLISHMENT

2 LICENSE: REQUIREMENTS; LOCATION. (a) An applicant for a video
3 lottery terminal establishment license must ensure that the
4 facility for the establishment will comply with all applicable
5 building codes and rules of the commission. The rules adopted by
6 the commission relating to facilities for video lottery
7 establishments must relate solely to this state's interest in the
8 operation of video lottery terminals.

9 (b) A video lottery terminal establishment shall provide
10 office space for the commission sufficient for at least one
11 commission employee.

12 (c) An applicant for a video lottery terminal establishment
13 license or a license holder shall provide the information required
14 by commission rule relating to the applicant's or license holder's
15 video lottery terminal establishment and update the information at
16 least annually.

17 (d) Notwithstanding Section 466.155, the commission may not
18 deny, suspend, or revoke a license under this subchapter based on
19 the fact that a video lottery terminal establishment or a proposed
20 video lottery terminal establishment is a location for which a
21 person holds a wine and beer retailer's permit, mixed beverage
22 permit, mixed beverage late hours permit, private club registration
23 permit, or private club late hours permit, issued under Chapter 25,
24 28, 29, 32, or 33, Alcoholic Beverage Code.

25 (e) A video lottery terminal establishment may be located
26 only at the premises of a racetrack.

27 (f) Notwithstanding Subsections (a) and (b) and on request

1 of an applicant for a video lottery terminal establishment license,
2 the commission by rule shall authorize the applicant, on receipt of
3 a license issued under this chapter to operate a video lottery
4 terminal establishment at a racetrack that meets the requirements
5 of Section 466.555, to construct temporary facilities to house and
6 operate video lottery equipment for not more than two years. A
7 racetrack that is granted a waiver described by Section 466.555(h)
8 is considered to meet the requirements of Section 466.555 for
9 purposes of this subsection.

10 Sec. 466.526. LICENSE HOLDER AS SALES AGENT. The holder of
11 a video lottery retailer or video lottery manager license may
12 operate as a sales agent for lottery tickets in accordance with this
13 chapter.

14 Sec. 466.527. TERM; RENEWAL ELIGIBILITY. (a) Unless
15 suspended or revoked, a license, certificate of registration,
16 finding of suitability, or other affirmative regulatory approval
17 issued under this subchapter, other than a video lottery retailer
18 license, expires on the date specified in the license, certificate,
19 finding, or approval, which may not be later than the 10th
20 anniversary of the date of issuance.

21 (b) A video lottery retailer license is valid for the same
22 term as the retailer's racetrack or pari-mutuel license issued
23 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
24 Statutes) unless suspended or revoked. The commission may charge
25 an annual fee not to exceed \$50,000 to the holder of a video lottery
26 retailer license.

27 (c) To be eligible for renewal of a license, certificate of

1 registration, finding of suitability, or other affirmative
2 regulatory approval, an applicant must satisfy all applicable
3 requirements under this subchapter.

4 Sec. 466.528. RULES FOR ADDITIONAL QUALIFICATIONS. The
5 commission by rule may establish other license, certificate,
6 finding of suitability, or approval qualifications the commission
7 determines are in the public interest and consistent with the
8 declared policy of this state.

9 Sec. 466.529. APPLICATION AS REQUEST FOR CHARACTER
10 DETERMINATION. An application under this subchapter to receive or
11 renew a license, certificate of registration, finding of
12 suitability, or other affirmative regulatory approval constitutes
13 a request for a determination of the applicant's general character,
14 integrity, and ability to participate or engage in or be associated
15 with the operation of video lottery terminals.

16 Sec. 466.530. IMMUNITY FOR STATEMENT MADE IN PROCEEDING OR
17 INVESTIGATION. Any written or oral statement made in the course of
18 an official commission proceeding or investigative activities
19 related to an application for commission licensing, registration,
20 suitability determination, or other affirmative regulatory
21 approval under this subchapter, by any member or agent or any
22 witness testifying under oath, that is relevant to the purpose of
23 the proceeding is absolutely privileged and does not impose
24 liability for defamation or constitute a ground for recovery in any
25 civil action.

26 Sec. 466.531. SUITABILITY FINDING. To promote the
27 integrity and security of the video lottery system, the commission

1 in its discretion may require a suitability finding for any person
2 doing business with or in relation to the operation of video lottery
3 terminals who is not otherwise required to obtain a license,
4 registration, or approval from the commission for the person's
5 video lottery-related operations.

6 Sec. 466.532. SUMMARY SUSPENSION OF VIDEO LOTTERY RETAILER
7 OR VIDEO LOTTERY MANAGER LICENSE; TERMINAL DISABLED. (a) The
8 commission may summarily suspend the license of a video lottery
9 retailer or video lottery manager without notice or hearing if the
10 commission finds the action is necessary to maintain the integrity,
11 security, honesty, or fairness of the operation or administration
12 of the lottery or to prevent financial loss to this state and:

13 (1) the license holder fails to deposit money received
14 from video lottery terminal operations as required by this
15 subchapter or commission rule;

16 (2) an event occurs that would render the license
17 holder ineligible for a license under this subchapter;

18 (3) the license holder refuses to allow the
19 commission, the commission's agents, or the state auditor, or their
20 designees, to examine the license holder's books, records, papers,
21 or other objects under Section 466.017; or

22 (4) the executive director learns the license holder
23 failed to disclose information that would, if disclosed, render the
24 video lottery retailer or video lottery manager ineligible for a
25 license under this subchapter.

26 (b) A summary suspension under this section must comply with
27 the notice and procedure requirements provided by Section 466.160.

1 (c) The commission may disable a video lottery terminal
2 operated by a license holder under this subchapter at the time:

3 (1) a proceeding to summarily suspend the license is
4 initiated;

5 (2) the commission discovers the license holder failed
6 to deposit money received from video lottery terminal operations as
7 required if the license is being summarily suspended under this
8 section; or

9 (3) an act or omission occurs that, under commission
10 rules, justifies the termination of video lottery terminal
11 operations to:

12 (A) protect the integrity of the lottery or the
13 public health, welfare, or safety; or

14 (B) prevent financial loss to this state.

15 (d) The commission shall immediately disable a video
16 lottery terminal if necessary to protect the public health,
17 welfare, or safety.

18 Sec. 466.533. LICENSING, REGISTRATION, SUITABILITY, AND
19 REGULATORY APPROVAL AS REVOCABLE PERSONAL PRIVILEGES. (a) The
20 purchaser or successor of a person who holds a license,
21 registration, finding of suitability, or other affirmative
22 regulatory approval under this subchapter must independently
23 qualify for a license, registration, suitability, or approval
24 required by this subchapter.

25 (b) The following acts void the license, registration,
26 finding of suitability, or other affirmative regulatory approval of
27 the holder unless approved in advance by the commission:

1 (1) the transfer, sale, or other disposition of an
2 interest in the holder that results in a change in the identity of a
3 substantial interest holder; or

4 (2) the sale of the assets of the holder, other than
5 assets bought and sold in the ordinary course of business, or any
6 interest in the assets, to any person not already determined to have
7 met the applicable qualifications of this subchapter.

8 [Sections 466.534-466.535 reserved for expansion]

9 Sec. 466.536. VIDEO LOTTERY TERMINAL. The commission shall
10 provide all video lottery retailers or video lottery managers with
11 a list of registered video lottery terminal providers, video
12 lottery games, and video lottery terminals authorized for operation
13 under this subchapter.

14 Sec. 466.537. VIDEO LOTTERY TERMINAL: DISTRIBUTION AND
15 COMMISSION APPROVAL. (a) A video lottery terminal provider may not
16 distribute a video lottery terminal or other video lottery
17 equipment for placement at a video lottery terminal establishment
18 in this state unless the video lottery terminal or other video
19 lottery equipment has been approved by the commission.

20 (b) Only a video lottery terminal provider registered with
21 or approved by the commission may apply for approval of a video
22 lottery terminal or other video lottery equipment.

23 (c) Not later than the 10th day before the date of shipment
24 to a location in this state, a video lottery terminal provider shall
25 file a report with the commission itemizing all video lottery
26 terminals and other video lottery equipment to be provided to a
27 video lottery retailer or video lottery manager in the shipment.

1 Sec. 466.538. VIDEO LOTTERY TERMINAL: TESTING; REPORT. (a)

2 A video lottery terminal provider shall submit two copies of
3 terminal illustrations, schematics, block diagrams, circuit
4 analysis, technical and operation manuals, and any other
5 information requested by the commission for the purpose of
6 analyzing and testing the video lottery terminal or other video
7 lottery equipment.

8 (b) The commission may require a working model of a video
9 lottery terminal to be provided to the commission unless the video
10 lottery terminal provider provides a certification from an
11 independent, commission-approved testing laboratory that the video
12 lottery terminal is compatible with the state's video lottery
13 system and functions as required by the commission.

14 Sec. 466.539. VIDEO LOTTERY TERMINAL: INSTALLATION;
15 MODIFICATION REQUEST. (a) A video lottery terminal provider is
16 responsible for the assembly and installation of all video lottery
17 terminals and related video lottery equipment.

18 (b) A video lottery terminal provider, video lottery
19 retailer, or video lottery manager may not change the assembly or
20 operational functions of a video lottery terminal authorized by the
21 commission for placement in this state unless a request for
22 modification of an existing video lottery terminal prototype is
23 approved by the commission. The request must contain:

- 24 (1) a detailed description of the type of change;
25 (2) a detailed description of the reasons for the
26 change; and
27 (3) technical documentation of the change.

1 (c) A video lottery terminal approved by the commission for
2 placement at a video lottery terminal establishment must conform to
3 the specifications of the video lottery terminal prototype tested
4 or approved by the commission.

5 Sec. 466.540. VIDEO LOTTERY TERMINAL REMOVAL. (a) If any
6 video lottery terminal that has not been approved by the commission
7 is distributed by a video lottery terminal provider or operated by a
8 video lottery retailer or video lottery manager or if an approved
9 video lottery terminal malfunctions, the commission shall require
10 the terminal to be removed from use and play.

11 (b) The commission may order that an unapproved terminal be
12 seized and destroyed.

13 (c) The commission may suspend or revoke the license of a
14 video lottery retailer or video lottery manager or the registration
15 or approval of a video lottery terminal provider for the
16 distribution, possession, or operation of an unauthorized video
17 lottery terminal.

18 (d) A video lottery retailer or video lottery manager may
19 retain on the premises of a video lottery establishment a number of
20 machines that the retailer or manager determines is necessary for
21 spare parts or repair purposes or as replacements. The retailer or
22 manager must provide to the commission each month a list of the
23 terminals retained under this subsection.

24 Sec. 466.541. VIDEO LOTTERY TERMINAL SPECIFICATIONS. (a)
25 The commission shall adopt rules for approval of video lottery
26 terminals, including requirements for video lottery game tickets,
27 maximum and minimum payout, and maximum wagers.

1 (b) A commission-approved video lottery terminal must meet
2 the following minimum specifications:

3 (1) the terminal must:

4 (A) operate through a player's insertion of a
5 coin, currency, voucher, or token into the video lottery terminal
6 that causes the video lottery terminal to display credits that
7 entitle the player to select one or more symbols or numbers or cause
8 the video lottery terminal to randomly select symbols or numbers;

9 (B) allow the player to win additional game play
10 credits, coins, or tokens based on game rules that establish the
11 random selection of winning combinations of symbols or numbers and
12 the number of free play credits, coins, or tokens to be awarded for
13 each winning combination; and

14 (C) allow the player at any time to clear all game
15 play credits and receive a video lottery ticket or other
16 representation of credits entitling the player to receive the cash
17 value of those credits;

18 (2) a surge protector must be installed on the
19 electrical power supply line to each video lottery terminal, a
20 battery or equivalent power backup for the electronic meters must
21 be capable of maintaining the accuracy of all accounting records
22 and video lottery terminal status reports for a period of 180 days
23 after power is disconnected from the video lottery terminal, and
24 the power backup device must be in the compartment specified in
25 Subdivision (4);

26 (3) the operation of each video lottery terminal may
27 not be adversely affected by any static discharge or other

1 electromagnetic interference;

2 (4) the main logic boards of all electronic storage
3 mediums must be located in a separate compartment in or from the
4 video lottery terminal that is locked and sealed by the commission;

5 (5) the instructions for play of each game must be
6 displayed on the video lottery terminal face or screen, including a
7 display detailing the credits awarded for the occurrence of each
8 possible winning combination of numbers or symbols;

9 (6) communication equipment and devices must be
10 installed to enable each video lottery terminal to communicate with
11 the video lottery central system through the use of a
12 communications protocol provided by the commission to each
13 registered video lottery terminal provider, which must include
14 information retrieval and programs to activate and disable the
15 terminal; and

16 (7) a video lottery terminal may be operated only if
17 connected to the video lottery central system, and play on the
18 terminal may not be conducted unless the terminal is connected to
19 the video lottery central system.

20 Sec. 466.542. VIDEO LOTTERY TERMINALS: HOURS OF OPERATION;
21 COMMUNICATION; LOCATION. (a) Except as otherwise provided by the
22 commission, the hours of operation for video lottery terminals are
23 subject to restrictions only as provided by commission rules.

24 (b) The commission by rule may prescribe restrictions on the
25 hours of video lottery terminal operations for purposes of
26 accounting for and collecting revenue generated by video lottery
27 terminal operations and performing other operational services on

1 the video lottery system.

2 (c) Communication between the video lottery central system
3 and each video lottery terminal must be continuous and on a
4 real-time basis as prescribed by the commission.

5 (d) Except as provided by commission rule, placement or
6 movement of video lottery terminals in a video lottery terminal
7 establishment must be consistent with a video lottery terminal
8 establishment floor plan filed with the commission.

9 Sec. 466.543. VIDEO LOTTERY TERMINAL: TRANSPORT;
10 DISPOSITION OF OBSOLETE TERMINAL. (a) The transportation and
11 movement of video lottery terminals into or within this state is
12 prohibited, except as permitted by this subchapter and approved by
13 the commission.

14 (b) An obsolete video lottery terminal or a video lottery
15 terminal that is no longer in operation must be promptly reported to
16 the commission.

17 [Section 466.544 reserved for expansion]

18 Sec. 466.545. TRAVEL AND INVESTIGATION COSTS. The
19 commission shall pay the travel and investigative expenses incurred
20 under this subchapter from money appropriated to the commission.

21 Sec. 466.546. CONSENT TO COMMISSION DETERMINATION. (a) An
22 application for a license, certificate of registration, finding of
23 suitability, or other affirmative regulatory approval under this
24 subchapter constitutes a request to the commission for a decision
25 on the applicant's general suitability, character, integrity, and
26 ability to participate or engage in or be associated with the
27 lottery in the manner or position sought.

1 (b) By filing an application with the commission, the
2 applicant specifically consents to the commission's decision at the
3 commission's election when the application, after filing, becomes
4 moot for any reason other than death.

5 Sec. 466.547. ABSOLUTE AUTHORITY OF COMMISSION. To protect
6 the integrity of the lottery or the public health, welfare, or
7 safety, or to prevent financial loss to this state, the commission
8 has full and absolute power and authority, subject to Chapter 2001,
9 to:

10 (1) deny any application or limit, condition,
11 restrict, revoke, or suspend any license, registration, finding of
12 suitability, or other affirmative regulatory approval; and

13 (2) fine any person licensed, registered, found
14 suitable, or approved for cause.

15 Sec. 466.548. INSTITUTIONAL INVESTOR. The commission shall
16 adopt rules regarding a finding of suitability for an institutional
17 investor in a person licensed under this subchapter.

18 [Sections 466.549-466.550 reserved for expansion]

19 Sec. 466.551. EFFECT OF DENIAL OF LICENSE, REGISTRATION,
20 FINDING OF SUITABILITY, OR APPROVAL. (a) A person whose
21 application for a license, registration, finding of suitability, or
22 other affirmative regulatory approval has been denied may not have
23 any interest in or association with a video lottery retailer or
24 video lottery manager or any other business conducted in connection
25 with video lottery without prior approval of the commission.

26 (b) Any contract between a person holding a license,
27 certificate of registration, finding of suitability, or other

1 affirmative regulatory approval and a person denied a license,
2 certificate of registration, finding of suitability, or other
3 affirmative regulatory approval must be terminated immediately on
4 receipt of notice from the commission. If the person denied a
5 license, certificate of registration, finding of suitability, or
6 other affirmative regulatory approval has previously been granted a
7 temporary license, certificate of registration, finding of
8 suitability, or other affirmative regulatory approval, the
9 temporary license, certificate of registration, finding of
10 suitability, or other affirmative regulatory approval expires
11 immediately on denial of the permanent license, certificate of
12 registration, finding of suitability, or other affirmative
13 regulatory approval.

14 (c) Except as otherwise authorized by the commission, a
15 person denied a license, certificate of registration, finding of
16 suitability, or other affirmative regulatory approval may not
17 reapply for any license, certificate of registration, finding of
18 suitability, or other affirmative regulatory approval before the
19 second anniversary of the date of the denial.

20 [Section 466.552 reserved for expansion]

21 Sec. 466.553. PRACTICE BY VIDEO LOTTERY RETAILER OR VIDEO
22 LOTTERY MANAGER. A video lottery retailer or video lottery manager
23 must:

24 (1) be aware of patron conditions and prohibit play by
25 visibly intoxicated patrons;

26 (2) comply with state alcoholic beverage control laws;

27 (3) at all times maintain sufficient change and cash

1 in denominations accepted by video lottery terminals;

2 (4) promptly report all video lottery terminal
3 malfunctions and downtime;

4 (5) install, post, and display prominently any
5 material required by the commission;

6 (6) prohibit illegal gambling and any related
7 paraphernalia;

8 (7) except as otherwise provided by this subchapter,
9 at all times prohibit money lending or other extensions of credit at
10 the video lottery terminal establishment;

11 (8) supervise employees and activities to ensure
12 compliance with all commission rules and this subchapter;

13 (9) maintain continuous camera coverage of all aspects
14 of video lottery game operations, including video lottery
15 terminals; and

16 (10) maintain an entry log for each video lottery
17 terminal on the premises of the video lottery terminal
18 establishment and maintain and submit complete records on receipt
19 of each video lottery terminal on the premises as determined by the
20 commission.

21 Sec. 466.554. RACETRACK REQUIREMENTS. (a) A video lottery
22 retailer at all times must hold a valid racetrack or pari-mutuel
23 wagering license issued by the Texas Racing Commission.

24 (b) A video lottery retailer that meets the qualifications
25 of Section 466.521(a)(1) is considered to meet the requirements of
26 this section.

27 Sec. 466.555. LIVE RACING REQUIREMENT. (a) "Class 1

1 racetrack," "class 2 racetrack," and "class 3 racetrack" have the
2 meanings assigned by Section 6.02, Texas Racing Act (Article 179e,
3 Vernon's Texas Civil Statutes).

4 (b) Except as provided by Subsection (d), a class 1
5 racetrack that operates a video lottery terminal establishment:

6 (1) shall annually offer for pari-mutuel wagering on
7 quarter horse and Thoroughbred races at that racetrack not fewer
8 than the greater of:

9 (A) the number of live racing days conducted by
10 the racetrack for each breed in 2002; or

11 (B) 50 live race days or 500 live races for each
12 breed; and

13 (2) may not conduct live racing on any day on which
14 another horse racetrack located within a 100-mile radius of the
15 racetrack conducts live racing for the same breed.

16 (c) Except as provided by Subsection (d), a class 2
17 racetrack that operates a video lottery terminal establishment:

18 (1) shall annually offer for pari-mutuel wagering on
19 quarter horse and Thoroughbred races at that racetrack not fewer
20 than the greater of:

21 (A) the number of live racing days conducted by
22 the racetrack for each breed in 2002; or

23 (B) 25 live race days or 250 live races for each
24 breed; and

25 (2) may not conduct live racing on any day on which
26 another horse racetrack within a 100-mile radius of the racetrack
27 conducts live racing for the same breed.

1 (d) A class 1 or class 2 racetrack may conduct fewer live
2 racing days or live races than required by Subsection (b) or (c) for
3 any breed if the racetrack, the applicable officially recognized
4 breed registry, and the officially recognized horsemen's
5 organization for that breed enter into a written agreement to
6 conduct fewer racing days or live races.

7 (e) A class 2 or class 3 racetrack that operates a video
8 lottery terminal establishment and that is located within a
9 100-mile radius of a class 1 racetrack may not conduct a horse race
10 in a manner that, for any breed, would result in:

11 (1) an average daily purse amount that exceeds the
12 average daily purse amount at the immediately preceding race
13 meeting for that breed at the class 1 racetrack unless otherwise
14 agreed to by both racetracks; or

15 (2) total purse amounts for that race meeting that
16 exceed the total purse amounts for the immediately preceding race
17 meeting for that breed at the class 1 racetrack unless otherwise
18 agreed to by both racetracks.

19 (f) A class 2 or class 3 racetrack subject to Subsection (e)
20 shall transfer any purse money in the Texas equine development fund
21 for that racetrack in excess of the maximum purse amounts
22 authorized under Subsection (e) to the horsemen's organization for
23 the same breed at the class 1 racetrack within the specified radius
24 for use by the organization, unless the class 1 racetrack and the
25 horsemen's organization agree to allow some or all of the excess
26 purse money to be transferred and used for the same breed by the
27 horsemen's organization at another racetrack or racetracks.

1 (g) A greyhound racetrack that operates a video lottery
2 terminal establishment shall offer not fewer than 420 live
3 greyhound racing performances in each calendar year, unless
4 otherwise agreed to in writing by the racetrack and the officially
5 recognized greyhound breed registry. For purposes of this
6 subsection, "greyhound racing performance" means the consecutive
7 running of not fewer than 12 greyhound races.

8 (h) The Texas Racing Commission shall adopt rules to
9 implement this section, including rules governing waiver of the
10 requirements of this section due to fire, weather, absence of
11 existing facilities required to conduct pari-mutuel wagering on
12 live racing, or other events beyond the reasonable control of the
13 pari-mutuel license holder. A waiver granted under this subsection
14 for construction of a new racetrack facility:

15 (1) expires on the second anniversary of the date of
16 issuance; and

17 (2) must include a provision that addresses the
18 transfer of a portion of the revenue generated from the operation of
19 the video lottery terminals as provided under this chapter to the
20 applicable Texas equine development fund or Texas canine
21 development fund during the term of the waiver.

22 (i) If a racetrack is in violation of this section and is
23 denied a waiver of the requirements of this section by the Texas
24 Racing Commission, the racing commission shall:

25 (1) require that, beginning on the date the request
26 for the waiver is denied, the racetrack's share of net terminal
27 income be placed in an escrow account and remain in that account

1 until the racing commission approves its release; and

2 (2) provide for the timely release of money from the
3 escrow account for required payments of debt instruments, license
4 fees, and other ordinary operating expenses.

5 (j) The Texas Racing Commission may not approve the release
6 of the remainder of the money in the escrow account after the
7 payments authorized under Subsection (i)(2) until the racing
8 commission certifies that, in the racing commission's judgment, the
9 racetrack has taken the actions required by the racing commission
10 to correct violations of this section. If the racing commission
11 makes the certification before live racing resumes at the
12 racetrack, it shall grant a waiver of the requirements of this
13 section. The actions required by the racing commission to correct
14 violations of this section must be a condition of the waiver and
15 must include a period for completion of the specified actions. If
16 the racetrack fails to adhere to the conditions of the waiver, the
17 waiver is revoked.

18 (k) A racetrack is ineligible to hold a video lottery
19 terminal establishment license under this subchapter if:

20 (1) the Texas Racing Commission denies a waiver of the
21 requirements of this section;

22 (2) the denial is not reversed after all appeals of
23 that decision by that racetrack are final; and

24 (3) the racetrack fails to take the actions required
25 by the racing commission to correct violations of this section.

26 Sec. 466.556. PRIZE RULES. The commission shall adopt
27 rules governing:

1 (1) the range of amounts a player may be charged to
2 play each video lottery game; and

3 (2) the range of prizes and credits that may be awarded
4 to the player of a video lottery game.

5 Sec. 466.557. VIDEO LOTTERY CENTRAL SYSTEM: COMMUNICATION
6 TECHNOLOGY. The video lottery central system provider shall pay
7 for the installation and operation of commission-approved
8 communication technology to provide communication between each
9 video lottery terminal and the video lottery central system.

10 Sec. 466.558. RESPONSIBILITY FOR VIDEO LOTTERY GAME
11 OPERATIONS. (a) A video lottery retailer or a video lottery
12 manager, if applicable, is responsible for the management of video
13 lottery game operations, including:

14 (1) the validation and payment of prizes,
15 determination of game themes, prizes, bonuses, progressives,
16 number and placement of video lottery terminals, and individual pay
17 out percentage settings; and

18 (2) the management of cashiers, food and beverage
19 workers, floor workers, security personnel, the security system,
20 building completion, janitorial services, landscaping design, and
21 maintenance.

22 (b) Nothing in Subsection (a) limits the authority of the
23 commission, the Department of Public Safety, or another law
24 enforcement agency to administer and enforce this chapter as
25 related to video lottery.

26 (c) In addition to other requirements under this chapter
27 relating to video lottery, a video lottery retailer or a video

1 lottery manager at all times shall:

2 (1) operate only video lottery terminals that are
3 distributed by a registered or approved video lottery terminal
4 provider and provide a secure location for the placement,
5 operation, and play of the video lottery terminals;

6 (2) prevent any person from tampering with or
7 interfering with the operation of a video lottery terminal;

8 (3) ensure that communication technology from the
9 video lottery central system to the video lottery terminals is
10 connected at all times and prevent any person from tampering or
11 interfering with the operation of the connection;

12 (4) ensure that video lottery terminals are in the
13 sight and control of designated employees of the video lottery
14 retailer or video lottery manager and in the sight of video cameras
15 as required under this subchapter;

16 (5) ensure that video lottery terminals are placed and
17 remain placed in the locations in the video lottery terminal
18 establishment that are consistent with the retailer's or manager's
19 floor plan;

20 (6) monitor video lottery terminals to prevent access
21 to or play by persons who are under 21 years of age or who are
22 visibly intoxicated;

23 (7) pay all credits won by a player on presentment of a
24 valid winning video lottery game ticket;

25 (8) install, post, and display prominently at the
26 licensed location redemption information and other informational
27 or promotional materials as required by the commission;

1 (9) maintain general liability insurance coverage for
2 the video lottery terminal establishment and all video lottery
3 terminals in the amounts required by the commission;

4 (10) assume liability for money lost or stolen from
5 any video lottery terminal; and

6 (11) annually submit an audited financial statement to
7 the commission in accordance with generally accepted accounting
8 principles.

9 [Section 466.559 reserved for expansion]

10 Sec. 466.560. TECHNICAL STANDARDS FOR VIDEO LOTTERY
11 EQUIPMENT. The commission by rule shall establish minimum
12 technical standards for video lottery equipment that may be
13 operated in this state.

14 Sec. 466.561. INCIDENT REPORTS. (a) A video lottery
15 retailer or video lottery manager shall record all unusual
16 occurrences related to gaming activity in a video lottery terminal
17 establishment operated by the retailer or manager.

18 (b) A video lottery retailer or video lottery manager shall
19 assign each material incident, without regard to materiality, a
20 sequential number and, at a minimum, provide the following
21 information in a permanent record prepared in accordance with
22 commission rules to ensure the integrity of the record:

23 (1) the number assigned to the incident;

24 (2) the date and time of the incident;

25 (3) the nature of the incident;

26 (4) each person involved in the incident; and

27 (5) the name of the employee or other agent of the

1 video lottery retailer or video lottery manager who investigated
2 the incident.

3 Sec. 466.562. EXCLUSION OF PERSONS. (a) The commission
4 shall compile a list of persons that a video lottery retailer or
5 video lottery manager must bar from a video lottery terminal
6 establishment based on a person's criminal history or association
7 with criminal offenders or because the person poses a threat to the
8 integrity of the lottery.

9 (b) A video lottery retailer or video lottery manager shall
10 employ the retailer's or manager's best efforts to exclude such
11 persons from entry into the establishment.

12 (c) A video lottery retailer or video lottery manager may
13 exclude a person for any reason not related to the person's race,
14 sex, national origin, physical disability, or religion.

15 (d) A person who believes the person may be playing video
16 lottery games on a compulsive basis may request that the person's
17 name be placed on the list compiled by the commission under
18 Subsection (a).

19 (e) All video lottery game employees shall receive training
20 in identifying players with a compulsive playing problem. Signs
21 and other materials shall be readily available to direct compulsive
22 players to agencies that offer appropriate counseling.

23 Sec. 466.563. REPORT ON LITIGATION. (a) A video lottery
24 retailer or video lottery manager shall report to the commission
25 any litigation relating to the retailer's or manager's video
26 lottery terminal establishment, including a criminal proceeding, a
27 proceeding involving an issue related to racing activities that

1 impact video lottery operations, or a matter related to character
2 or reputation relevant to a person's suitability under this
3 subchapter.

4 (b) The report required under Subsection (a) must be filed
5 not later than the fifth day after the date the video lottery
6 retailer or video lottery manager acquired knowledge of the
7 litigation.

8 Sec. 466.564. COMMISSION APPROVAL REQUIRED FOR PROCEDURES
9 AND ACCOUNTING CONTROLS. (a) The commission's approval is
10 required for all internal procedures and accounting controls of a
11 video lottery retailer or video lottery manager.

12 (b) The commission by rule shall establish general
13 accounting and auditing requirements and internal control
14 standards for video lottery retailers and video lottery managers.

15 [Section 466.565 reserved for expansion]

16 Sec. 466.566. VIDEO LOTTERY TERMINAL EVENTS. A video
17 lottery retailer or video lottery manager shall keep a record of
18 video lottery terminal events. The commission by rule shall
19 determine what constitutes a video lottery terminal event for
20 purposes of this section.

21 Sec. 466.567. EMPLOYEE REPORTING. (a) On or before the
22 15th day of each month, a video lottery retailer or video lottery
23 manager shall submit to the commission an employee report for the
24 video lottery terminal establishment operated by the retailer or
25 manager. For each employee of the retailer or manager, the report
26 must provide the employee's name, job title, date of birth, and
27 social security number.

1 (b) The employee report is confidential and may not be
2 disclosed except under commission order or in accordance with
3 Section 466.022(d).

4 (c) The commission may conduct criminal history
5 investigations for employees of video lottery retailers and video
6 lottery managers.

7 (d) The commission may prohibit an employee from performing
8 any act relating to video lottery terminals if the commission finds
9 that an employee has:

10 (1) committed, attempted, or conspired to commit any
11 act prohibited by this chapter;

12 (2) concealed or refused to disclose any material fact
13 in any commission investigation;

14 (3) committed, attempted, or conspired to commit
15 larceny or embezzlement;

16 (4) been convicted in any jurisdiction of an offense
17 involving or relating to gambling;

18 (5) accepted employment in a position for which
19 commission approval is required after commission approval was
20 denied for a reason involving personal unsuitability or after
21 failing to apply for a license or approval on commission request;

22 (6) been prohibited under color of governmental
23 authority from being present on the premises of any gaming
24 establishment or any establishment where pari-mutuel wagering is
25 conducted for any reason relating to improper gambling activity or
26 for any illegal act;

27 (7) wilfully defied any legislative investigative

1 committee or other officially constituted body acting on behalf of
2 the United States or any state, county, or municipality that sought
3 to investigate alleged or potential crimes relating to gaming,
4 corruption of public officials, or any organized criminal
5 activities; or

6 (8) been convicted of any felony or any crime
7 involving moral turpitude.

8 (e) The commission may prohibit an employee from performing
9 any act relating to video lottery terminals based on a revocation or
10 suspension of any gaming or wagering license, certificate of
11 registration, finding of suitability, or other affirmative
12 regulatory approval or for any other reason the commission finds
13 appropriate, including a refusal by a regulatory authority to issue
14 a license, certificate of registration, finding of suitability, or
15 other affirmative regulatory approval for the employee to engage in
16 or be involved with the lottery or with regulated gaming or
17 pari-mutuel wagering in any jurisdiction.

18 (f) In this section, "employee" includes any person
19 connected directly with or compensated by an applicant or the
20 holder of a license, certificate of registration, finding of
21 suitability, or other affirmative regulatory approval under this
22 subchapter as an agent, personal representative, consultant, or
23 independent contractor for activities directly related to video
24 lottery operations in this state.

25 Sec. 466.568. REPORT OF VIOLATIONS. A person who holds a
26 license, certificate of registration, finding of suitability, or
27 other affirmative regulatory approval under this subchapter shall

1 immediately report a violation or suspected violation of this
2 chapter or a rule adopted under this chapter by any holder of a
3 license, certificate of registration, finding of suitability, or
4 other affirmative regulatory approval, by an employee of the
5 holder, or by any person on the premises of a video lottery terminal
6 establishment, whether or not associated with the holder.

7 Sec. 466.569. SECURITY. (a) In addition to the security
8 provisions applicable under Section 466.020, a video lottery
9 retailer or video lottery manager shall comply with the following
10 security procedures:

11 (1) all video lottery terminals must be continuously
12 monitored through the use of a closed-circuit television system
13 that records activity for a continuous 24-hour period and all video
14 tapes or other media used to store video images shall be retained
15 for at least 30 days and made available to the commission on
16 request;

17 (2) access to video lottery terminal areas shall be
18 restricted to persons who are at least 21 years of age;

19 (3) the video lottery retailer or video lottery
20 manager must provide to the commission a security plan for the
21 retailer or manager's video lottery operations that includes a
22 floor plan of the area where video lottery terminals are to be
23 operated showing video lottery terminal locations and security
24 camera mount locations; and

25 (4) each license holder shall employ at least the
26 minimum number of private security personnel the commission
27 determines is necessary to provide for safe and approved operation

1 of the video lottery terminal establishment and the safety and
2 well-being of the players.

3 (b) Private security personnel must be present during all
4 hours of operation at each video lottery terminal establishment.

5 (c) An agent or employee of the commission or the Department
6 of Public Safety or other law enforcement personnel may be present
7 at a video lottery terminal establishment at any time.

8 (d) The commission may adopt rules to impose additional
9 surveillance and security requirements related to video lottery
10 terminal establishments and the operation of video lottery
11 terminals.

12 Sec. 466.570. VIDEO LOTTERY TERMINAL ESTABLISHMENT:
13 COMMISSION RIGHT TO ENTER. The commission, the commission's
14 representative, the Texas Racing Commission, or a representative of
15 the Texas Racing Commission, after displaying appropriate
16 identification and credentials, has the free and unrestricted right
17 to enter the premises of a video lottery terminal establishment and
18 to enter any other locations involved in operation or support of
19 video lottery at all times to examine the systems and to inspect and
20 copy the records of a video lottery retailer or video lottery
21 manager pertaining to the operation of video lottery.

22 [Sections 466.571-466.586 reserved for expansion]

23 Sec. 466.587. INDEMNIFICATION REQUIREMENTS. The holder of
24 a license, certificate of registration, finding of suitability, or
25 other affirmative regulatory approval shall indemnify and hold
26 harmless this state, the commission, and all officers and employees
27 of this state and the commission from any and all claims which may

1 be asserted against the holder, the commission, this state, and the
2 members, officers, employees, and authorized agents of this state
3 or the commission arising from the holder's participation in the
4 video lottery system authorized under this subchapter.

5 Sec. 466.588. LIABILITY FOR CREDIT AWARDED OR DENIED;
6 PLAYER DISPUTE. (a) This state and the commission are not liable
7 for any video lottery terminal malfunction or error by a video
8 lottery retailer, video lottery manager, or video lottery terminal
9 provider that causes credit to be wrongfully awarded or denied to
10 players.

11 (b) Any dispute arising between a player and a video lottery
12 retailer or video lottery manager shall be resolved by the
13 commission as follows:

14 (1) if the fair market value of the prize is less than
15 \$1,000, the dispute shall be resolved in accordance with the
16 commission-approved written policies of the video lottery retailer
17 or video lottery manager and without any relief available from the
18 commission or this state; or

19 (2) if the fair market value of the prize is \$1,000 or
20 more, the dispute shall be resolved by the commission in the
21 commission's sole discretion in accordance with commission rules.

22 (c) A court of this state does not have jurisdiction to
23 review the decision of the commission resolving a dispute between a
24 player and a video lottery retailer, video lottery manager, or
25 video lottery terminal provider.

26 Sec. 466.589. STATE VIDEO LOTTERY ACCOUNT. (a) The
27 commission shall deposit funds received under this subchapter to

1 the state video lottery account. The state video lottery account is
2 a special account in the general revenue fund. The account consists
3 of all revenue received by this state from the operation of video
4 lottery terminals.

5 (a-1) Notwithstanding Section 466.355(b), the commission
6 may expend an amount not to exceed \$5 million from the state lottery
7 account to establish the video lottery system in accordance with
8 this chapter and from revenue deposited in the state video lottery
9 account may reimburse the state lottery account for the total
10 amount of funds expended from the state lottery account to
11 establish the video lottery system. This subsection expires
12 January 1, 2015.

13 (b) An amount not to exceed one percent of the net terminal
14 income received by this state under Section 466.590 shall be
15 allocated to the commission to defray expenses incurred in
16 administering this chapter related to video lottery, including
17 expenses incurred to operate the video lottery central system. All
18 money allocated to the commission under this subsection may be
19 retained by the commission to defray expenses of administering this
20 chapter related to video lottery and shall be deposited in the state
21 video lottery account.

22 Sec. 466.590. ALLOCATION OF NET TERMINAL INCOME; TRANSFER
23 OF MONEY. (a) Net terminal income derived from the operation of
24 video lottery games in this state is allocated as follows:

25 (1) a portion of the net terminal income generated in
26 each calendar year shall be remitted to this state by the video
27 lottery retailer or video lottery manager in an amount equal to 30

1 percent of the net terminal income for that year; and

2 (2) the remainder shall be retained by the video
3 lottery retailer or video lottery manager.

4 (b) Ten million dollars of the net terminal income received
5 by this state under Subsection (a) shall annually in equal monthly
6 installments be transferred to the Texas Racing Commission to be
7 expended solely for the treatment of compulsive gamblers and the
8 promotion of responsible gaming.

9 (c) Ten million dollars of the net terminal income received
10 by this state under Subsection (a) shall annually in equal monthly
11 installments be transferred to the criminal justice planning fund
12 for use by the criminal justice division of the governor's office to
13 be used to prosecute offenses under Chapter 47, Penal Code.

14 (d) The commission shall require a video lottery retailer or
15 video lottery manager to establish a separate electronic funds
16 transfer account for depositing money from video lottery terminal
17 operations, making payments to the commission or its designee, and
18 receiving payments from the commission or its designee.

19 (e) A video lottery retailer or video lottery manager may
20 not make payments to the commission in cash. As authorized by the
21 commission, a video lottery retailer or video lottery manager may
22 make payments to the commission by cashier's check.

23 (f) The commission at least weekly shall transfer this
24 state's share of net terminal income of a video lottery retailer or
25 video lottery manager to the commission through the electronic
26 transfer of the money.

27 (g) The commission by rule shall establish the procedures

1 for:

2 (1) depositing money from video lottery terminal
3 operations into electronic funds transfer accounts; and

4 (2) handling money from video lottery terminal
5 operations.

6 (h) Unless otherwise directed by the commission, a video
7 lottery retailer or a video lottery manager shall maintain in its
8 account this state's share of the net terminal income from the
9 operation of video lottery terminals, to be electronically
10 transferred by the commission on dates established by the
11 commission. On a license holder's failure to maintain this
12 balance, the commission may disable all of a license holder's video
13 lottery terminals until full payment of all amounts due is made.
14 Interest shall accrue on any unpaid balance at a rate consistent
15 with the amount charged under Section 111.060, Tax Code. The
16 interest shall begin to accrue on the date payment is due to the
17 commission.

18 (i) In the commission's sole discretion, rather than
19 disable a license holder's video lottery terminals under Subsection
20 (h), the commission may elect to impose a fine on a license holder
21 in an amount determined by the commission not to exceed \$250,000 for
22 each violation. If the license holder fails to remedy the
23 violation, including payment of any amounts assessed by or due to
24 this state, on or before the 30th day after the date the license
25 holder is notified of the violation, the commission may disable the
26 license holder's video lottery terminals or use any other means for
27 collection as provided by the penalty chart established by the

1 commission.

2 (j) A video lottery retailer or video lottery manager is
3 solely responsible for resolving any income discrepancies between
4 actual money collected and the net terminal income reported by the
5 video lottery central system. Unless an accounting discrepancy is
6 resolved in favor of the video lottery retailer or video lottery
7 manager, the commission may not make any credit adjustments. Any
8 accounting discrepancies which cannot otherwise be resolved shall
9 be resolved in favor of the commission.

10 (k) A video lottery retailer and video lottery manager shall
11 remit payment as directed by the commission if the electronic
12 transfer of money is not operational or the commission notifies the
13 license holder that other remittance is required. The license
14 holder shall report this state's share of net terminal income, and
15 remit the amount generated from the terminals during the reporting
16 period.

17 Sec. 466.591. COMMISSION EXAMINATION OF FINANCIAL RECORDS.
18 The commission may examine all accounts, bank accounts, financial
19 statements, and records in the possession or control of a person
20 licensed under this subchapter or in which the license holder has an
21 interest. The license holder must authorize and direct all third
22 parties in possession or in control of the accounts or records to
23 allow examination of any of those accounts or records by the
24 commission.

25 Sec. 466.592. FINANCIAL INFORMATION REQUIRED. (a) A video
26 lottery retailer or video lottery manager shall furnish to the
27 commission all information and bank authorizations required to

1 facilitate the timely transfer of money to the commission.

2 (b) A video lottery retailer or video lottery manager must
3 provide the commission advance notice of any proposed account
4 changes in information and bank authorizations to assure the
5 uninterrupted electronic transfer of money.

6 (c) The commission is not responsible for any interruption
7 or delays in the transfer of money. The video lottery retailer or
8 video lottery manager is responsible for any interruption or delay
9 in the transfer of money.

10 Sec. 466.593. TRANSFERS OF VIDEO LOTTERY PROCEEDS FOR
11 CERTAIN PURPOSES; RACING FACILITIES CAPITAL IMPROVEMENT ACCOUNT.

12 (a) A video lottery retailer or video lottery manager that operates
13 a video lottery terminal establishment at a horse racetrack at
14 least weekly shall transfer:

15 (1) 11 percent of the net terminal income to the Texas
16 equine development fund established at that racetrack; and

17 (2) one percent of the net terminal income to the
18 performance horse development fund.

19 (b) A video lottery retailer or video lottery manager that
20 operates a video lottery terminal establishment at a greyhound
21 racetrack shall transfer 12 percent of the net terminal income to
22 the Texas canine development fund established at that racetrack.

23 (c) A video lottery retailer or video lottery manager that
24 operates a video lottery terminal establishment at a horse
25 racetrack shall provide at least \$1 million, or a different amount
26 required by the Texas Racing Commission, in accident insurance
27 coverage for jockeys participating in a race meeting at its

1 racetrack. The Texas Racing Commission:

2 (1) may review and approve the adequacy of the
3 coverage;

4 (2) shall annually adjust for inflation the minimum
5 coverage amount; and

6 (3) shall annually publish in the Texas Register the
7 revised minimum coverage amount.

8 (d) A video lottery retailer or video lottery manager shall
9 provide all necessary capital investments and required
10 improvements for the video lottery terminal establishment.

11 (e) A video lottery retailer or video lottery manager shall
12 make at least weekly payments to the racing facilities capital
13 improvement account in an amount equal to one-half of one percent of
14 the net terminal income unless a racing facilities agreement
15 providing for a different amount is filed with the Texas Racing
16 Commission.

17 (f) The racing facilities capital improvement account is an
18 escrow account maintained by the Texas Racing Commission. A
19 transfer of money from the account requires:

20 (1) for a horse racetrack, the signatures of:

21 (A) a designated official of the horse racetrack;

22 and

23 (B) a designated representative appointed by a
24 majority of the quarter horse state breed registry, the
25 Thoroughbred state horse breed registry, and the horsemen's
26 organization; or

27 (2) for a greyhound racetrack, the signatures of:

1 (A) a designated official of the greyhound
2 racetrack; and

3 (B) a designated representative of the Texas
4 Greyhound Association.

5 (g) The Texas Racing Commission shall adopt rules to
6 administer this section. The rules must require the electronic
7 transfer of funds to the accounts described in this section.

8 (h) A matter considered by the Texas Racing Commission under
9 this section is a contested case under Chapter 2001 and requires a
10 public hearing.

11 Sec. 466.594. PAYMENTS FROM NET TERMINAL INCOME WHEN LIVE
12 RACING DOES NOT OCCUR. (a) A video lottery retailer or video
13 lottery manager shall promptly and fully make each payment or
14 transfer from the net terminal income required under this chapter
15 on behalf of the video lottery terminal establishment at the
16 racetrack even if live racing at that racetrack is shortened,
17 canceled, or delayed for any reason.

18 (b) If a horse racetrack fails to request the minimum number
19 of required live race dates or fails to offer the minimum number of
20 required live races despite issuance of live race dates, does not
21 receive a waiver of that violation from the Texas Racing Commission
22 as provided under this subchapter, and does not have an agreement
23 with the affected state horse breed registries and horsemen's
24 organization, the applicable state horse breed registries and the
25 horsemen's organization may, in their sole discretion, transfer all
26 money to which they are entitled under this chapter from that
27 racetrack to the respective accounts under their control at another

1 racetrack or racetracks.

2 (c) If a greyhound racetrack fails to request the minimum
3 number of required live race dates or fails to offer the minimum
4 number of required live races despite issuance of live race dates,
5 does not receive a waiver of that violation from the Texas Racing
6 Commission as provided under this subchapter, and does not have an
7 agreement with the affected officially recognized greyhound breed
8 registry, the Texas Greyhound Association may, in its sole
9 discretion, transfer all money to which the association is entitled
10 under this chapter from that racetrack to the account under its
11 control at another racetrack or racetracks.

12 Sec. 466.595. EQUINE RESEARCH FUNDING; USES OF TEXAS CANINE
13 DEVELOPMENT FUND OR TEXAS EQUINE DEVELOPMENT FUND AT EACH
14 RACETRACK. (a) The amount equal to 0.025 percent of the net
15 terminal income generated at a video lottery terminal establishment
16 at a horse racetrack shall be transferred from the Texas equine
17 development fund for that racetrack to the equine research account
18 of the Texas Agricultural Experiment Station for use in equine
19 research, including facilities development under Subchapter F,
20 Chapter 88, Education Code. The money transferred under this
21 subsection shall supplement, and may not replace, funding provided
22 under the Texas Racing Act (Article 179e, Vernon's Texas Civil
23 Statutes).

24 (b) Each video lottery retailer or video lottery manager
25 that operates a video lottery terminal establishment at a racetrack
26 shall, at least weekly, transfer to the racing facilities capital
27 improvement account from the racetrack's Texas equine development

1 fund or Texas canine development fund, as applicable, an amount
2 equal to one-half of one percent of the net terminal income unless a
3 racing facilities agreement providing for a different amount is
4 filed with the Texas Racing Commission.

5 (c) Unless an agreement between the state horse breed
6 registries and the horsemen's organization provides otherwise, and
7 after any other allocations required by this subchapter, the
8 remainder of the money deposited in the Texas equine development
9 fund at a horse racetrack must:

10 (1) be used for purses and the Texas-bred incentive
11 programs and may be used for other programs considered beneficial
12 to the equine industry, including:

13 (A) equine retirement, adoption, and retraining
14 programs;

15 (B) programs to test for banned
16 performance-enhancing equine drugs, performance-enhancing drug
17 testing research, and equipment and facilities of laboratories
18 providing those services in this state; and

19 (C) other programs to improve the working
20 environment in stable areas of racetracks; and

21 (2) be allocated as follows:

22 (A) the amount equal to 4.43 percent of the net
23 terminal income to the horsemen's organization to supplement
24 Thoroughbred racing purses;

25 (B) the amount equal to 2.385 percent of the net
26 terminal income to the horsemen's organization to supplement
27 quarter horse racing purses;

1 (C) the amount equal to 2.38 percent of the net
2 terminal income to the Thoroughbred state horse breed registry; and

3 (D) the amount equal to 1.28 percent of the net
4 terminal income to the quarter horse state horse breed registry.

5 (d) From the money allocated under Subsection (c)(2)(A),
6 pursuant to an agreement between the Texas Arabian Breeders
7 Association and the horsemen's organization, the horsemen's
8 organization shall allocate a portion of the money for purses for
9 the Arabian horse racing industry. The agreement must provide that
10 not less than the amount equal to 0.199 percent of the net terminal
11 income be allocated for Arabian horse racing purses. If an
12 agreement is not made, the horsemen's organization shall transfer
13 to the Texas Arabian horse racing industry the amount equal to 0.199
14 percent of the net terminal income for Arabian horse racing purses.

15 (e) From the money allocated under Subsection (c)(2)(B),
16 pursuant to an agreement between the Texas Paint Horse Breeders'
17 Association and the horsemen's organization, the horsemen's
18 organization shall allocate a portion of the money for purses for
19 the paint horse racing industry. If the agreement is not made, the
20 horsemen's organization shall transfer to the paint horse racing
21 industry an amount equal to 0.072 percent of the net terminal income
22 for paint horse racing purses.

23 (f) From the money allocated under Subsection (c)(2)(C),
24 pursuant to an agreement between the Texas Arabian Breeders
25 Association and the Thoroughbred state horse breed registry, the
26 registry shall allocate a portion of the money for the Arabian horse
27 racing industry state-breed programs. The agreement must provide

1 that not less than the amount equal to 0.107 percent of the net
2 terminal income be allocated for Arabian state-breed programs. If
3 an agreement is not made, the Thoroughbred state horse breed
4 registry shall transfer to the Texas Arabian horse racing industry
5 for state-breed programs the amount equal to 0.107 percent of the
6 net terminal income.

7 (g) From the money allocated under Subsection (c)(2)(D),
8 pursuant to an agreement between the Texas Paint Horse Breeders'
9 Association and the quarter horse state horse breed registry, the
10 registry shall allocate a portion of the money for state-breed
11 programs for the paint horse racing industry. If an agreement is
12 not made, the registry shall transfer to the paint horse racing
13 industry an amount equal to 0.038 percent of the net terminal income
14 for paint horse state-breed programs.

15 (h) Following the other transfers and allocations required
16 by this subchapter, the remainder of the money deposited in the
17 Texas canine development fund at a greyhound racetrack is allocated
18 as follows:

19 (1) the amount equal to 4.75 percent of the net
20 terminal income to supplement greyhound racing purses;

21 (2) the amount equal to 4.75 percent of the net
22 terminal income to supplement accredited Texas-bred greyhound
23 purses; and

24 (3) the amount equal to two percent of the net terminal
25 income to the Texas Greyhound Association as the state greyhound
26 breed registry.

27 (i) The Texas Racing Commission may adopt rules to

1 administer this section and shall require the electronic transfer
2 of funds to the accounts described in this section.

3 Sec. 466.5955. RACING FACILITIES AGREEMENT; LIMITATION ON
4 USES OF RACING FACILITIES CAPITAL IMPROVEMENT ACCOUNT. (a) For
5 purposes of Sections 466.593 and 466.595, a racing facilities
6 agreement for a horse racetrack is valid only on approval of the
7 applicable racetrack and a majority of the quarter horse state
8 horse breed registry, the Thoroughbred state horse breed registry,
9 and the horsemen's organization.

10 (b) For purposes of Sections 466.593 and 466.595, a racing
11 facilities agreement for a greyhound racetrack is valid only on
12 approval of the racetrack and the Texas Greyhound Association.

13 (c) A racing facilities agreement filed under Section
14 466.593 or 466.595 remains in effect until it expires on its own
15 terms or until it is superseded by a subsequent racing facilities
16 agreement for the same racetrack.

17 (d) Unless a racing facilities agreement provides
18 otherwise, the money in the racing facilities capital improvement
19 account may be spent only for the maintenance and improvement of
20 pari-mutuel racing facilities.

21 Sec. 466.596. USES OF PERFORMANCE HORSE DEVELOPMENT FUND.

22 (a) In this section, "performance and recreational horses" means
23 horses bred or trained for public competition and exhibition or
24 recreational use in all legally permitted equine activities other
25 than horse racing at racetracks.

26 (b) Money in the performance horse development fund may be
27 spent only for:

1 (1) the development of the horse agricultural industry
2 in this state through efforts intended to attract, retain, promote,
3 and encourage the breeding, raising, training, and exhibition of
4 performance and recreational horses in this state; and

5 (2) events and programs conducted in this state.

6 (c) Money from the performance horse development fund is
7 allocated as follows:

8 (1) 40 percent to the American Quarter Horse
9 Association for its sanctioned events and programs;

10 (2) 20 percent to the National Cutting Horse
11 Association for its sanctioned events and programs;

12 (3) 20 percent to the American Paint Horse Association
13 for its sanctioned events and programs; and

14 (4) 20 percent to the Department of Agriculture to
15 promote the equine agricultural industry in this state.

16 (d) Subject to Subsection (e), money transferred to an
17 association or agency from the performance horse development fund
18 may be used for:

19 (1) purse supplements or additional money for
20 performance and recreational horse events conducted in this state;

21 (2) the establishment of an accredited Texas Bred
22 Program for breeding of performance and recreational horses;

23 (3) the marketing and promotion of performance and
24 recreational horse activities and events in this state; and

25 (4) scholarship programs.

26 (e) Money may be transferred under Subsection (c)(4) only to
27 organizations of the equine industry in this state that are not

1 receiving money for events and programs under Subsection (c)(1),
2 (2), or (3).

3 (f) Except as otherwise provided by law, all money paid to
4 the Department of Agriculture is subject to Subchapter F, Chapter
5 404.

6 Sec. 466.597. LIABILITY OF VIDEO LOTTERY RETAILER AND VIDEO
7 LOTTERY MANAGER. (a) A video lottery retailer, video lottery
8 manager, or both, are jointly and severally liable to the
9 commission for the state's share of net terminal income.

10 (b) Net terminal income received by the video lottery
11 retailer or video lottery manager is held in trust for the benefit
12 of this state before delivery of the state's share to the commission
13 or electronic transfer to the state treasury, and the video lottery
14 retailer or video lottery manager, or both, are jointly and
15 severally liable to the commission for the full amount of the money
16 held in trust.

17 (c) If the video lottery retailer or video lottery manager
18 is not an individual, each officer, director, or owner of the video
19 lottery retailer or video lottery manager is personally liable to
20 the commission for the full amount of the money held in trust,
21 except that shareholders of a publicly held corporation shall be
22 liable in an amount not to exceed the value of their equity
23 investment.

24 (d) The money derived from video lottery proceeds that is
25 required under this chapter to be transferred to the Texas equine
26 development fund or the performance horse development fund is held
27 in trust by the video lottery retailer or video lottery manager, as

1 applicable, for the benefit of the persons designated in this
2 chapter to receive money from the funds. On Wednesday of each week,
3 the retailer or manager shall transfer the money accrued in the
4 funds during the week ending on the preceding Saturday to the
5 depository accounts maintained by the persons entitled to money
6 from the funds under this chapter. If the retailer or manager fails
7 to transfer the money as required under this subsection, a person
8 entitled to money from the funds under this chapter may file a civil
9 action against the retailer or manager for relief, including
10 damages and specific performance.

11 Sec. 466.598. PRIZE PAYMENT AND REDEMPTION. (a) Payment of
12 prizes is the sole and exclusive responsibility of the video
13 lottery retailer or video lottery manager. A prize may not be paid
14 by the commission or this state except as otherwise authorized.

15 (b) Nothing in this subchapter limits the ability of a video
16 lottery retailer or video lottery manager to provide promotional
17 prizes in addition to prize payouts regulated by the commission.

18 (c) A video lottery ticket must be redeemed not later than
19 the 180th day following the date of issuance. If a claim is not made
20 for prize money on or before the 180th day after the date on which
21 the video lottery ticket was issued, the prize money becomes the
22 property of the video lottery terminal establishment.

23 (d) The commission shall enact rules consistent with this
24 section governing the use and redemption of prizes and credits
25 recorded on electronic player account records, such as players'
26 club cards and smart cards.

27 Sec. 466.599. REVOCATION OF LICENSE, REGISTRATION,

1 SUITABILITY FINDING, OR OTHER REGULATORY APPROVAL. (a) The
2 commission shall revoke or suspend a license, certificate of
3 registration, finding of suitability, or other affirmative
4 regulatory approval issued under this subchapter if the holder at
5 any time fails to meet the eligibility requirements set forth in
6 this subchapter.

7 (b) Failure to timely remit revenue generated by video
8 lottery terminals to the commission or any tax or other fee owed to
9 this state as demonstrated by report from the applicable taxing
10 authority or to timely file any report or information required
11 under this subchapter as a condition of any license, certificate of
12 registration, finding of suitability, or other affirmative
13 regulatory approval issued under this subchapter may be grounds for
14 suspension or revocation, or both, of a license, registration,
15 suitability, or approval issued under this subchapter.

16 Sec. 466.600. HEARING FOR REVOCATION OR SUSPENSION. (a)
17 Before the commission revokes or suspends a video lottery terminal
18 provider's registration or approval or video lottery retailer's or
19 video lottery manager's license, or imposes monetary penalties for
20 a violation of this subchapter, the commission shall provide
21 written notification to the license, certificate, or approval
22 holder of the revocation, the period of suspension, or the monetary
23 penalty. The notice shall include:

24 (1) the effective date of the revocation or the period
25 of suspension or the amount of the monetary penalty, as applicable;

26 (2) each reason for the revocation, suspension, or
27 penalty;

1 (3) an explanation of the evidence supporting the
2 reasons;

3 (4) an opportunity to present the holder's position in
4 response on or before the 15th day after the effective date of the
5 revocation; and

6 (5) a statement explaining the holder's right to an
7 administrative hearing to determine whether the revocation,
8 suspension, or penalty is warranted.

9 (b) The commission shall adopt rules to implement this
10 section.

11 Sec. 466.601. ABSOLUTE PRIVILEGE OF REQUIRED
12 COMMUNICATIONS AND DOCUMENTS. (a) Any communication, document, or
13 record of a video lottery central system provider, video lottery
14 terminal provider, video lottery retailer, or video lottery
15 manager, an applicant, or a holder of a license, certificate of
16 registration, finding of suitability, or other affirmative
17 regulatory approval that is made or transmitted to the commission
18 or any of its employees to comply with any law, including a rule of
19 the commission, to comply with a subpoena issued by the commission,
20 or to assist the commission or its designee in the performance of
21 their respective duties is absolutely privileged, does not impose
22 liability for defamation, and is not a ground for recovery in any
23 civil action.

24 (b) If a communication, document, or record provided under
25 Subsection (a) contains any information that is privileged under
26 state law, that privilege is not waived or lost because the
27 communication, document, or record is disclosed to the commission

1 or any of the commission's employees.

2 (c) The commission shall maintain all privileged
3 information, communications, documents, and records in a secure
4 place as determined in the commission's sole discretion that is
5 accessible only to members of the commission and authorized
6 commission employees.

7 Sec. 466.602. INTELLECTUAL PROPERTY RIGHTS OF COMMISSION.

8 The legislature finds and declares that the commission has the
9 right to establish ownership of intellectual property rights for
10 all lottery products, including video lottery terminals and related
11 video lottery equipment.

12 SECTION 30. Section 467.001, Government Code, is amended by
13 amending Subdivision (9) and adding Subdivision (12) to read as
14 follows:

15 (9) "Person that has a significant financial interest
16 in the lottery" means:

17 (A) a person or a board member, officer, trustee,
18 or general partner of a person that manufactures, distributes,
19 sells, or produces lottery equipment, video lottery equipment,
20 video lottery games, video lottery central systems, supplies,
21 services, or advertising;

22 (B) an employee of a video lottery terminal
23 provider, video lottery central system provider, or person that
24 manufactures, distributes, sells, or produces lottery equipment,
25 supplies, services, or advertising or video lottery equipment or
26 games and that employee is directly involved in the manufacturing,
27 distribution, selling, or production of lottery equipment,

1 supplies, services, or advertising or video lottery equipment or
2 games;

3 (C) a person or a board member, officer, trustee,
4 or general partner of a person that has made a bid to operate the
5 lottery in the preceding two years or that intends to make a bid to
6 operate the lottery or an employee of the person if the employee is
7 directly involved in making the bid; or

8 (D) a sales agent, video lottery retailer, video
9 lottery manager, video lottery terminal provider, or video lottery
10 central system provider.

11 (12) "Video lottery central system," "video lottery
12 equipment," "video lottery game," "video lottery manager," "video
13 lottery retailer," and "video lottery terminal provider" have the
14 meanings assigned by Section 466.002.

15 SECTION 31. Section 467.021(a), Government Code, is amended
16 to read as follows:

17 (a) The commission is composed of:

18 (1) three voting members appointed by the governor
19 with the advice and consent of the senate; and

20 (2) the comptroller, who serves as an ex officio,
21 nonvoting member.

22 SECTION 32. Section 467.031, Government Code, is amended to
23 read as follows:

24 Sec. 467.031. DIVISIONS; DIRECTOR; CONTRACT. The
25 commission shall establish separate divisions to oversee bingo and
26 the state lottery. The commission shall employ a director to
27 oversee video lottery and shall enter into an intra-agency

1 agreement with the Texas Racing Commission for the Texas Racing
2 Commission to be responsible for performing the inspections and
3 regulatory functions specified in the agreement at racetracks on
4 behalf of the Texas Lottery Commission.

5 SECTION 33. Section 467.035(a), Government Code, is amended
6 to read as follows:

7 (a) The commission may not employ or continue to employ a
8 person who owns a financial interest in:

9 (1) a bingo commercial lessor, bingo distributor, or
10 bingo manufacturer; or

11 (2) a lottery sales agency, ~~or~~ a lottery operator, a
12 video lottery retailer, a video lottery manager, a video lottery
13 terminal provider, a video lottery central system provider, or a
14 manufacturer of video lottery games.

15 SECTION 34. Section 467.108, Government Code, is amended to
16 read as follows:

17 Sec. 467.108. REPRESENTATION BY FORMER OFFICER OR EMPLOYEE.

18 (a) A former commission member, former executive director, or
19 former director may not:

20 (1) ~~[for compensation,]~~ represent a person, either
21 with or without compensation, [that has made or intends to make a
22 bid to operate the lottery] before the commission before the fifth
23 ~~[second]~~ anniversary of the date that the person's service in
24 office or employment with the commission ceases;

25 (2) represent any person or receive compensation for
26 services rendered on behalf of any person regarding a particular
27 matter in which the former officer or employee participated during

1 the period of service or employment with the commission, either
2 through personal involvement or because the matter was within the
3 scope of the officer's or employee's official responsibility; or

4 (3) [~~for compensation~~] communicate on behalf of any
5 person, whether compensated or not compensated, directly with a
6 member of the legislative branch to influence legislation on behalf
7 of a person that has any [~~a significant financial~~] interest in the
8 lottery, before the fifth [~~second~~] anniversary of the date that the
9 person's service in office or employment with the commission
10 ceases.

11 (b) A person commits an offense if the person violates this
12 section. An offense under this section is a felony of the third
13 degree [~~Class A misdemeanor~~].

14 SECTION 35. Section 411.108, Government Code, is amended by
15 adding Subsection (d) to read as follows:

16 (d) The Texas Lottery Commission may obtain from the
17 department, subject to an interagency agreement entered into under
18 Section 466.020(d) or 466.206, criminal history record information
19 maintained by the department that relates to any natural person,
20 corporation, association, trust, partnership, limited partnership,
21 joint venture, government, subsidiary, or other entity, regardless
22 of its form, structure, or nature that the commission has the
23 authority to investigate under Chapter 466 as related to the
24 commission's operation and oversight of video lottery. Criminal
25 history record information obtained by the commission under this
26 subsection may be released or disclosed only as provided in
27 Sections 466.022(d) and 466.206.

1 SECTION 36. Section 47.06(e), Penal Code, is amended to
2 read as follows:

3 (e) An offense under this section is a felony of the third
4 degree [~~Class A misdemeanor~~].

5 SECTION 37. Section 47.09, Penal Code, is amended by
6 amending Subsection (a) and adding Subsection (c) to read as
7 follows:

8 (a) It is a defense to prosecution under this chapter that
9 the conduct:

10 (1) was authorized under:

11 (A) Chapter 2001, Occupations Code;

12 (B) Chapter 2002, Occupations Code; or

13 (C) the Texas Racing Act (Article 179e, Vernon's
14 Texas Civil Statutes);

15 (2) consisted entirely of participation in gambling or
16 other gaming activity that:

17 (A) is or may be permitted under the Indian
18 Gaming Regulatory Act (Pub. L. No. 100-497), without regard to
19 whether the gambling or gaming activity is conducted by an Indian
20 tribe to which that Act applies; and

21 (B) is conducted:

22 (i) by an Indian tribe or tribal
23 organization that was included on the January 30, 1998, list of
24 recognized Indian tribes by the United States secretary of the
25 interior as required under 25 U.S.C. Section 479a-1; and

26 (ii) on premises designated by the tribe or
27 tribal organization for that gambling or other gaming activity on

1 land that was held in trust or recognized as tribal land of that
2 tribe or tribal organization by the federal government on January
3 1, 1998;

4 (3) was a necessary incident to activity described by
5 Subdivision (2);

6 (4) consisted entirely of participation in the state
7 lottery, including the video lottery system, authorized by Chapter
8 466, Government Code; or

9 (5) [~~(3)~~] was a necessary incident to the operation of
10 the state lottery, including the video lottery system, and was
11 directly or indirectly authorized by:

12 (A) Chapter 466, Government Code;

13 (B) the lottery division of the Texas Lottery
14 Commission;

15 (C) the Texas Lottery Commission; or

16 (D) the director of the lottery division of the
17 Texas Lottery Commission.

18 (c) Subsection (a)(3) applies to a person manufacturing,
19 distributing, possessing, or operating a gambling device with the
20 authorization of the Texas Lottery Commission under Subchapter K,
21 Chapter 466, Government Code.

22 SECTION 38. Chapter 47, Penal Code, is amended by adding
23 Section 47.095 to read as follows:

24 Sec. 47.095. INTERSTATE OR FOREIGN COMMERCE DEFENSE. It is
25 a defense to prosecution under this chapter that a person sells,
26 leases, transports, possesses, stores, or manufactures a gambling
27 device with the authorization of the Texas Lottery Commission under

1 Subchapter K, Chapter 466, Government Code, or on behalf of an
2 Indian tribe in connection with activity described by Section
3 47.09(a)(2) for transportation in interstate or foreign commerce.

4 SECTION 39. (a) As soon as practicable after the
5 constitutional amendment authorizing a state video lottery system
6 to operate video lottery games at certain horse and greyhound
7 racetracks and providing that federally recognized Indian tribes
8 are not prohibited from conducting games of chance on certain
9 Indian lands proposed by the 82nd Legislature, Regular Session,
10 2011, is approved by the voters and becomes effective, the Texas
11 Lottery Commission and the Texas Racing Commission shall adopt the
12 rules necessary to implement video lottery in accordance with
13 Subchapter K, Chapter 466, Government Code, as added by this Act.

14 (b) Before the proposed constitutional amendment is
15 submitted to the voters, the Texas Lottery Commission may expend
16 money from the commission's appropriation for the 2012-2013 state
17 fiscal biennium for purposes of conducting pre-implementation
18 activities to establish the state video lottery system in
19 accordance with Subchapter K, Chapter 466, Government Code, as
20 added by this Act. Notwithstanding Section 466.355, Government
21 Code, the money authorized to be expended under this section may be
22 withdrawn from the state lottery account and considered a part of
23 the transfer of funds from the state lottery account authorized
24 under Section 466.589, Government Code, as added by this Act, to
25 fund the establishment of the state video lottery system.

26 (c) If the proposed constitutional amendment is approved by
27 the voters, the Texas Lottery Commission and the Texas Racing

1 Commission shall adopt initial rules for purposes of implementing
2 video lottery in accordance with Chapter 466, Government Code, as
3 amended by this Act, not later than December 1, 2011. Chapter 2001,
4 Government Code, does not apply to the adoption of those rules.
5 Rules adopted under this section shall expire not later than
6 September 1, 2014.

7 (d) Notwithstanding Chapter 466, Government Code, as
8 amended by this Act, the Texas Lottery Commission may not issue a
9 video lottery retailer or video lottery manager license to an
10 applicant under that chapter unless the applicant, on or before
11 September 1, 2011, pays to the commission an initial application
12 fee in the following amount:

13 (1) for an applicant who holds a class 1 racetrack
14 license, \$25 million; or

15 (2) for an applicant who holds a class 2 or class 3
16 horse racetrack license or a greyhound racetrack license, \$15
17 million.

18 (e) If the proposed constitutional amendment is not
19 approved by the voters, the Texas Lottery Commission shall
20 reimburse the full amount of the initial application fee paid by an
21 applicant under Subsection (d) of this section not later than
22 December 1, 2011.

23 SECTION 40. The change in law made by this Act applies only
24 to an offense committed on or after the effective date of this Act.
25 An offense committed before the effective date of this Act is
26 covered by the law in effect when the offense was committed, and the
27 former law is continued in effect for that purpose. For purposes of

1 this section, an offense was committed before the effective date of
2 this Act if any element of the offense was committed before that
3 date.

4 SECTION 41. Sections 1 through 38 and 40 of this Act take
5 effect on the date the constitutional amendment authorizing a state
6 video lottery system to operate video lottery games at certain
7 horse and greyhound racetracks and providing that federally
8 recognized Indian tribes are not prohibited from conducting games
9 of chance on certain Indian lands proposed by the 82nd Legislature,
10 Regular Session, 2011, becomes effective. Section 39 of this Act
11 and this section take effect immediately if this Act receives a vote
12 of two-thirds of all the members elected to each house, as provided
13 by Section 39, Article III, Texas Constitution. If this Act does
14 not receive the vote necessary for immediate effect, Section 39 of
15 this Act and this section take effect September 1, 2011.